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from the editor

JANA MARAIS

Writing this on the eve of the State of the Nation Address (Sona) on 11 February, I suspect many of us expect that the EFF will generate more headlines than what President Jacob Zuma will have to say. Yet this is a crucial speech for Zuma, if he wants to restore some confidence in his presidency.

Despite the devastating impact his decision to fire finance minister Nhlanhla Nene in December had on investor confidence and our economic outlook, Nene's firing is probably the best thing to happen to us in a long time, if – and with apologies to Winston Churchill – we don't let this good crisis go to waste.

We're already seeing some positive developments. For one, it has finally prompted the private sector to become a lot more vocal regarding their concerns about the economy and government policies. Government's engagement with business leaders has also increased substantially since Nene's axing as Treasury in particular has been trying to do damage control, restore confidence to boost investment and avoid a junk credit rating.

Saying the right things in the Sona will help to fight the fires, but Zuma's Sona promises will be worthless unless government puts its money where its mouth is in finance minister Pravin Gordhan's upcoming Budget Speech.

Frans Cronje, CEO of the South African Institute of Race Relations (IRR), points out that the finance minister has always used the Budget address to give the right signals on issues like fiscal prudence and the importance of investment-driven growth. Yet, a pattern was allowed to develop where the signals given by the finance minister were repeatedly contradicted by the later actions of the government, which would develop and implement policies that undermine property rights and investor confidence and introduce red tape, Cronje says. Examples include the recently approved legislation on the protection of investments.

The consequences, Cronje explains, can be read in economic data such as our low growth, the low savings rate, a declining labour market absorption rate and investment outflows. Arguably a more serious consequence is that very few observers are now likely to take the government at its word. In order to restore investor confidence, we'll need a bold and detailed economic reform agenda, he says.

The bad news is that it is unlikely that Zuma or Gordhan will announce the fundamental reforms we need this month. But the economy will get a lot worse, and, similar to what we saw in the late 1980s, the pressure for fundamental reform will eventually be impossible to avoid. ■

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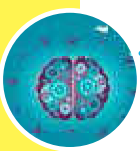

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ENQUIRIES

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Fax
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Postal Address: PO Box 440, Green Point, Cape Town, 8051 **Tel:** +27 (0)21 417 1111 Fax: +27 (0)21 417 1112 **Email:** newmedia@newmediapub.co.za
Executive Directors **Group Commercial Director:** John Psillos **Managing Director:** Bridget McCarney **Non Executive Director:** Irna van Zyl
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By Johan Fourie

JOBS

Automation to fuel unemployment?

Increased automation is giving rise to more concerns regarding the need for human labour. *finweek* explains why not everyone will be left out in the cold and what you can do to make sure you don't become obsolete.

At least 25% of all South Africans willing and able to work are unable to find a job. Unemployment is the scourge of our times, depriving households from incomes that can buy goods and services. Incomes that will increase consumption of nutritious food; send kids to good schools; ensure secure homes; provide opportunities for leisure activities and improve living standards.

At least **25%** of all South Africans willing and able to work are unable to find a job.

The psychological scars of joblessness can be severe and persistent. In an ideal world, all citizens who are able and willing can find a job.

Yet, there are deepening concerns that technological progress is eradicating the need for human labour. With the emergence of artificial intelligence, the Internet of Things, autonomous vehicles, and the likes of everyday applications, a very real social problem seems to be arising: Will the firm of the future need human workers? And given the poor quality of skills in SA, is it not plausible to expect that SA's unemployment rate could rise to 50%? Or even 60%?

SA is not alone. The economic consequences of the Rise of the Robots – also known as the Fourth Industrial Revolution – were the main topic of discussion at the World Economic Forum at Davos in January, with great fanfare but little content.

A far better analysis is provided by MIT economist David Autor in a paper published in the *Journal of Economic Perspectives* in December. In the article, *Why Are There Still So Many Jobs?* Autor asks why automation has not wiped out most jobs over the last decades, as was predicted in the 1960s.

The simple answer: Automation both substitutes and complements human labour. Yes, automation (machines, algorithms) replaces labour. But automation also complements labour, increasing productivity and earnings, augmenting the demand for labour.

Think about ATMs. A new study by Boston University professor James Bessen shows that, between 1995 and 2010, ATMs quadrupled in the US from 100 000 to 400 000.

One might assume that the spread of ATMs replaced the need for bank tellers, but bank teller employment actually rose from 500 000 to 550 000. Why? ATMs reduced the cost of operating a bank branch (by substituting what more expensive bank tellers did). Because of this cost reduction, banks opened more branches across the US, and could employ more bank tellers (although fewer per branch). Because ATMs now do the menial task of cash-dispensing, bank tellers were freed up to offer other types of 'relationship banking' services, introducing clients to new banking services like credit cards and investment products.

The effect of automation on employment thus depends on whether workers' tasks are substituted or complemented, whether there are enough workers to respond to the greater demand for the complementary tasks, and what those new workers do with their incomes.

Another example: Farmers increasingly use GPS navigation equipment to automate harvesting, substituting the need to employ tractor drivers. Can tractor drivers adjust their skills to complement the new automation? Probably not. Their jobs will likely be replaced by technicians able to install and run GPS navigation software. If there are fewer such technicians (which there are), it is likely that their wages will be higher than the tractor drivers'. These technicians will probably spend their incomes on products and services different from the tractor drivers, benefitting industries unrelated to GPS automation (like restaurants and golf clubs) and hurting others (the local spaza shop).

The latter is often overlooked. Automation will indeed replace unskilled labour for highly skilled jobs in the first stage of the story – the tractor drivers losing their jobs to GPS technicians. But higher farm productivity pushes up the incomes of the farmer and technicians, allowing them to spend more in the rest of the economy – often on services where automation has less of an effect. Such services often employ unskilled labour intensively, like waiters or groundskeepers – thus a net positive impact on unskilled labour.

Autor reports that automation in the US and Europe indeed seemed to have had a positive impact on high-paying and low-paying jobs. But the middle-paying occupations – office clerks, building trade workers, machine operators – have lost out. He calls this phenomenon the polarisation of employment.

It's unlikely that automation will result in significantly higher unemployment in SA. Productivity will increase, increasing the incomes for those with skills to complement machines. Higher incomes will likely be spent on services where unskilled labour is intensively used. Expect the demand for occupations as cleaners, security guards, and hairdressers to increase – jobs where automation is complementary to human labour.

Because of the large supply of unskilled labour in SA though, such greater demand will reduce unemployment but is unlikely to affect wages. Inequality between the incomes of the small pool of skilled workers and the large pool of employed but low-wage earners will increase.

Those employed in back-office jobs where creativity and human interaction is not required should be warned: the robots and algorithms are coming for your job.

My advice: Find a way to build or programme the robots, or analyse the data they generate. Or choose a service industry where automation will complement those very human tasks of creativity, imagination and human interaction. ■

editorial@finweek.co.za

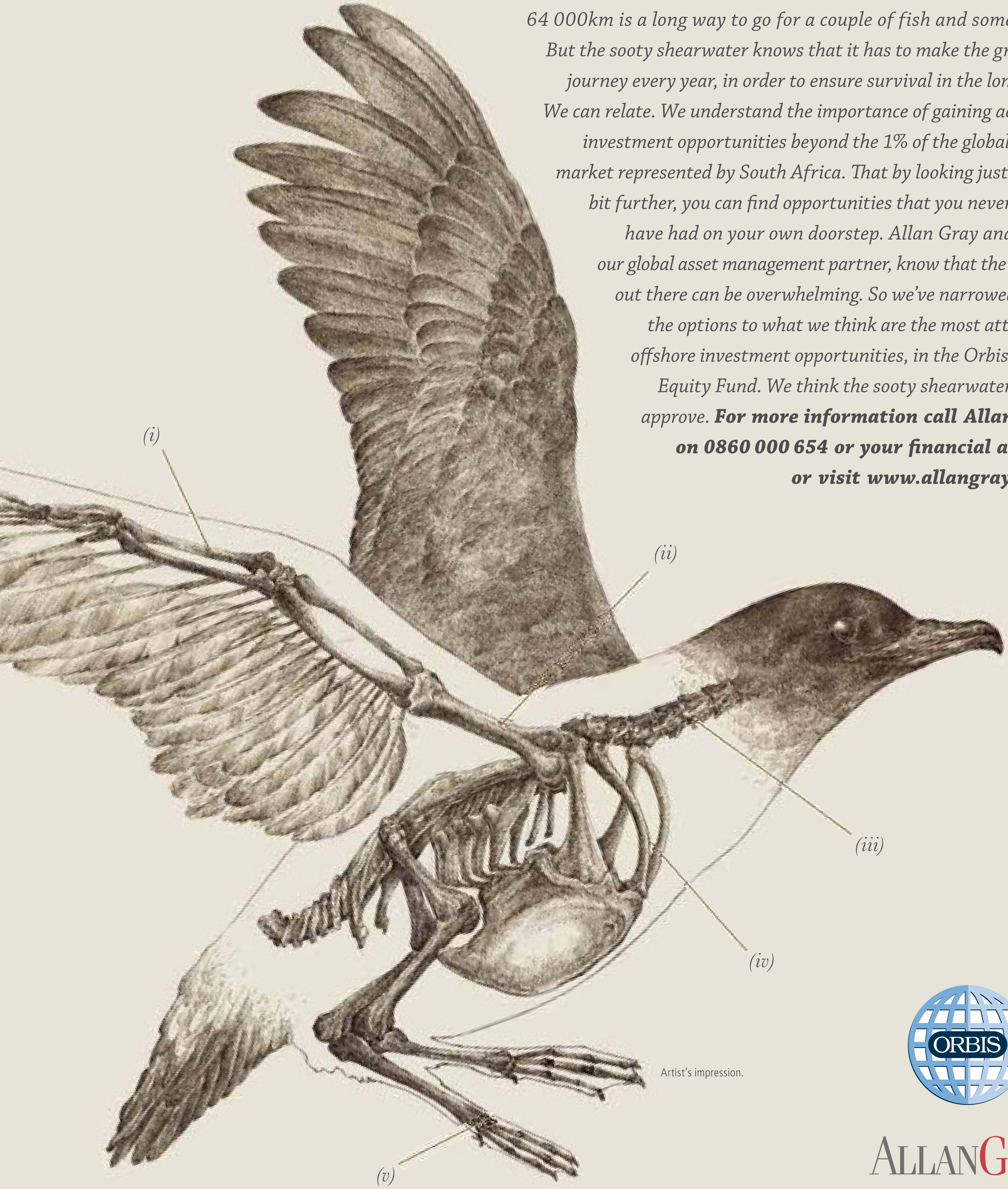
Johan Fourie is associate professor in Economics at Stellenbosch University.

Gallo Images/AFP/FATI MOALUSI

86164/E

THE FURTHER YOU TRAVEL, THE MORE OPPORTUNITIES YOU'LL FIND.

64 000km is a long way to go for a couple of fish and some squid. But the sooty shearwater knows that it has to make the gruelling journey every year, in order to ensure survival in the long term. We can relate. We understand the importance of gaining access to investment opportunities beyond the 1% of the global equity market represented by South Africa. That by looking just a little bit further, you can find opportunities that you never would have had on your own doorstep. Allan Gray and Orbis, our global asset management partner, know that the choices out there can be overwhelming. So we've narrowed down the options to what we think are the most attractive offshore investment opportunities, in the Orbis Global Equity Fund. We think the sooty shearwater would approve. ***For more information call Allan Gray on 0860 000 654 or your financial adviser, or visit www.allangray.co.za***



Artist's impression.

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ALLANGRAY
LONG-TERM INVESTING

By Lyn Snodgrass

TERTIARY EDUCATION

Deepening inequality is the high price students will pay for free education

Prof. Lyn Snodgrass argues that free university tuition, as demanded by the #FeesMustFall movement, will not level the playing field for students as the quality of tertiary education in the country will drop.

University students have scored some massive victories since "fees must fall" entered South Africa's lexicon. They have secured more government funding for fees. They have forced universities to address a complex range of institutional inequalities.

This #FeesMustFall movement has become a force for social change centred around access to and free tertiary education. It demands deep transformation in all sectors of the higher education landscape and, in essence, encompasses broader societal issues of social justice and equality.

The gains students have made don't just hold the government and university management accountable. They also speak to the "will of the people", the public good, and robust democratic processes in South Africa.

But herein lies the problem: transformation, or social change, has a dynamic of its own. This makes it an unpredictable, uncontrollable and unknowable force – one with often unintended consequences.

The law of unintended consequences

Psychology professor Robert Kurzban likes to tell the story of what happened when bubonic plague reached an Australian neighbourhood, The Rocks, in 1900. Rats carry the fleas that transmit the plague to humans. Local authorities offered a reward to residents for every rat killed. The unintended consequence? People tempted by this bounty actually started breeding rats. This illustrates that when people effect social change by intervening in complex, dynamic systems with many parts, especially economies, it disrupts the complex web of interrelationships. This has unforeseen and unforeseeable consequences that are not anticipated by politicians or popular opinion.

So what's the unintended consequence of the #FeesMustFall movement's victories? Quite simply, the substantial resources universities must direct at fee shortfalls in both the immediate and long term will become increasingly problematic for government and the ailing South African economy.

The psychology of scarcity

These resource struggles are going to impose critical limitations on universities' academic projects. Efforts will be concentrated on maintenance, and even survival, rather than growth and advancement.

Universities started the 2016 academic year talking about scarcity. The dominant discourse centres on budget constraints, post freezes, arrested projects, salary containment, affordability reviews – that is, whether courses are viable and sustainable – third-stream income and rising university debt.

The "scarcity mindset" is a significant area of behavioural research in economics, psychology and public policy. It highlights the adverse impact of scarce resources like time and money on mental states and social and physical environments. Scarcity is all-consuming. It imposes cognitive deficits and activates destructive emotional states of anxiety and fear.

It also narrows the worldviews of individuals and institutions, creating a myopic concentration on immediate gains. There's no room in this tunnel vision for creative problem solving, innovative planning and deliberate decision-making.

Universities are spaces where the freedom of critical enquiry, expression and debate are fundamental principles.

In the words of Oxford University's Chancellor Lord Patten of Barnes, nobody wants them to become "a drab, bland, suburb of the soul where the diet is intellectual porridge".

Free education or quality education?

Now South Africa's universities are tightening their belts at a time when they actually need *more* resources to address the extensive teaching and learning challenges of a deeply divided society.

Universities ought to be involved in a range of innovative, professional teaching, learning and research activities. They can do important work in areas like curriculum design, educational technologies, sustainable infrastructure, internationalisation and technical support.

Lyn Snodgrass
Associate professor at NMMU

They are also expected to produce global, critical thinkers. These graduates can contribute to a knowledge society, drive the economy and enhance democratic citizenship. Universities that narrow their focus to make ends meet and have only scarce resources cannot fulfil these important roles.

Scarcity means that some academic goals will have to be sacrificed at the expense of others. Universities, which are already dealing with a multiplicity of competing needs and demands, will now be under pressure to choose how and where they allocate scarce resources.

Educationalists have warned that these relentless, growing pressures may lead to a "quality collapse". These are the unforeseen consequences of the #FeesMustFall movement's demands and gains.

Collateral damage – the trade-off

Students actually risk becoming collateral damage if this climate of scarcity forces a trade-off between quality education or free education. They'll be the unintended targets of discriminatory and exclusionary practices amid a crisis in higher education.

Graduates without the requisite knowledge, skills and values will not have access to the competitive "world of work". And this will further entrench inequality and injustice in South Africa. ■

editorial@finweek.co.za

Lyn Snodgrass is Associate Professor and Head of the Department of Political and Conflict Studies at the Nelson Mandela Metropolitan University.

THE CONVERSATION

the week

in brief

"WITH CLEARLY COMMUNICATED AND UNDERSTOOD LONG TERM-PLANS IN PLACE, QUARTERLY EARNINGS REPORTS WOULD BE TRANSFORMED FROM AN INSTRUMENT OF INCESSANT SHORT-TERMISM INTO A BUILDING BLOCK OF LONG-TERM BEHAVIOUR."

– BlackRock CEO Larry Fink in a letter he sent to more than 500 companies on 1 February. He warned companies against chasing short-term performance that would come at the expense of value-creating investments. Fink urged execs to develop long-term growth plans against which shareholders could evaluate the companies' performances, instead of using short-term performance to gauge progress. (See page 33.)

Gallo Getty Images

JOBLESS RATE DROPS

13.5m

The US unemployment rate fell to 4.9% in January – the lowest level since 2008. This means the US has created more than 13.5m jobs since the end of the financial crisis. Stanlib economist Kevin Lings said in a brief that the improvement in the US employment data over the past months, "coupled with reasonably solid US service sector data, should help to ease concerns the Federal Reserve may have that the economy has suddenly lost significant momentum". A slowdown in activity was currently reflected in "declining exports, a massive pullback in oil exploration, declining industrial production and a depletion of business inventory levels", Lings said. Stanlib expected US interest rates to remain unchanged for the first half of 2016.

Ben Magara
CEO of Lonmin

"THAT'S WHAT I AM WORRYING ABOUT. THE INVESTORS HAVE GIVEN US MONEY AND WE MUST DELIVER. INVESTORS ARE ASKING IF WE ARE GOING TO DELIVER ON THIS."

– Lonmin CEO Ben Magara told Reuters in an interview that the company was now focused on "turning cash positive in a low [platinum] price environment". This would include closing down high-cost shafts and cutting jobs. When the troubled Lonmin raised $400m through a rights issue in December, almost 30% of its shareholders chose not to follow this option.

BETTER HURRY UP

$1.6bn

Should AB InBev manage to complete its acquisition of SABMiller by early August, it will avoid having to pay $1.6bn in dividends to SABMiller shareholders, *Business Times* reported. If AB InBev misses this deadline, SABMiller will have to pay final dividends for the 2016 financial year which, according to the terms of the offer, will be no more than $0.94 (or around R15) per share.

DOUBLE TAKE

BY RICO

THE GOOD

President Jacob Zuma's lawyers have finally admitted that the president was indeed bound by the directive of public protector Thuli Madonsela that he should pay back some of the money spent on the upgrades at his Nkandla home. Following two years of denial, many South Africans will feel that sanity is finally returning to this debacle.

Image Cornel van Heerden

THE BAD

The Chamber of Mines (CoM) has warned that a further 8% increase in Eskom's electricity tariffs could cost the gold and precious metals sector up to 40 000 jobs, Miningmx.com reported. The CoM said if the hike was approved, the annual tariff increase would be 16.6%, jeopardising "20 000 of the 119 000 jobs remaining in the gold sector, and another 20 000 of the 189 000 jobs in the platinum sector".

THE UGLY

After the confirmation that Chinese company International Resources would no longer be buying out Evraz Highveld Steel & Vanadium, commentators say that it would need to find another buyer soon, or sell its assets. Drop in demand and massive global oversupply has already led to stringent cost-cutting measures in the local steel sector. Amsa's outgoing CEO, Paul O'Flaherty, has said that Amsa is reviewing the future of its Saldanha Works, amidst rising electricity prices (See page 12). With further electricity tariffs on the horizon, the industry is in for another difficult year.

By Lameez Omarjee

Fancy yourself a 3D illusionist?

The 3D street art phenomenon, which uses flat images that create illusions of depth, has fascinated people across the world. Now anyone can create their own 3D illusions using a mobile app developed by media entrepreneur, James Sands.

A locally developed app that allows users to create 3D anamorphic illusions came up as one of two winners in the Get In The Ring Entrepreneurship Challenge for the southern and central African region. In March the app's designer, James Sands, will go to Colombia to compete in the final stage of this global competition.

The mobile app, iMORPH3D, allows users to create 3D illusions, much like those designed by 3D street artists. The app, launched in 2015, has a global reach with sales in SA, Russia, Europe, Australia and the US. His participation in the competition has given iMORPH3D more exposure and access to potential fans and investors, both locally and abroad, says Sands.

As a creative director, having been in the advertising industry for the past 20 years, Sands is always looking for new and different ideas. Sands says 3D street art illusions piqued his interest.

"I love creating and doing anything creative, especially 3D illusions and optical illusions. Who doesn't?"

After doing research on the art, he "deconstructed" the process and created a tool for "everyday people" to do the same. "We need a lot more creativity and positivity in this world and that's what I'm trying to bring."

Users don't need to have a background in design. However, professional illustrators, photographers and artists can use the app to create their own 3D illusions to offer to their clients, says Sands. The app can be downloaded from iTunes or Google Play for $6 (R86.86). Users can watch a 12-minute video tutorial that explains how it works.

Using the app, users can take a photograph of an object to create a visual canvas. The user can then distort the image so that it looks 3D when printed on a flat piece of paper.

"We need a lot more creativity and positivity in this world and that's what I'm trying to bring."

Email assistance is also available to users if they need help following the steps in the tutorial. However, the tutorial is fairly comprehensive and easy to follow, Sands says.

The final product can be printed on any household printer and the image size can be scaled up.

Sands solely developed this app over the past two years, finding time between his advertising media company ADFIRE CREATIVE M3DIA, and his full-time job as creative director.

He worked on the design, features, name, logo and website, but he got in touch with developers to do the coding for the app.

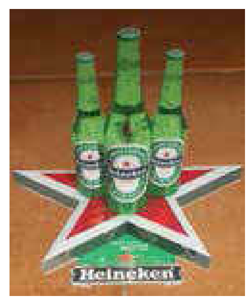
While time is a constraint for the one-man business, there are plans to add more features in future. This includes an in-app store, which allows people to buy professionally made 3D illusions. He is exploring options to develop an in-app purchase for a higher-grade tutorial for more professional illusions. Eventually these illusions will be taken beyond the digital space. Sands hopes to introduce 3D art festivals where people can create a 3D illusion in one place at one time, hopefully breaking a Guinness World Record. Photo booths that allow people to take pictures with 3D illusion scenes in the background are also on the cards.

He says iMORPH3D is the first app of its kind. "It's truly a unique app. There's no other app like it out there... It's a creative, fun idea." Sands regularly does research to make sure no one else has "copied" his idea, he jokes.

People who use iMORPH3D to make their own 3D illusions for clients could essentially become competition for Sands' 3D business. But he welcomes the competition.

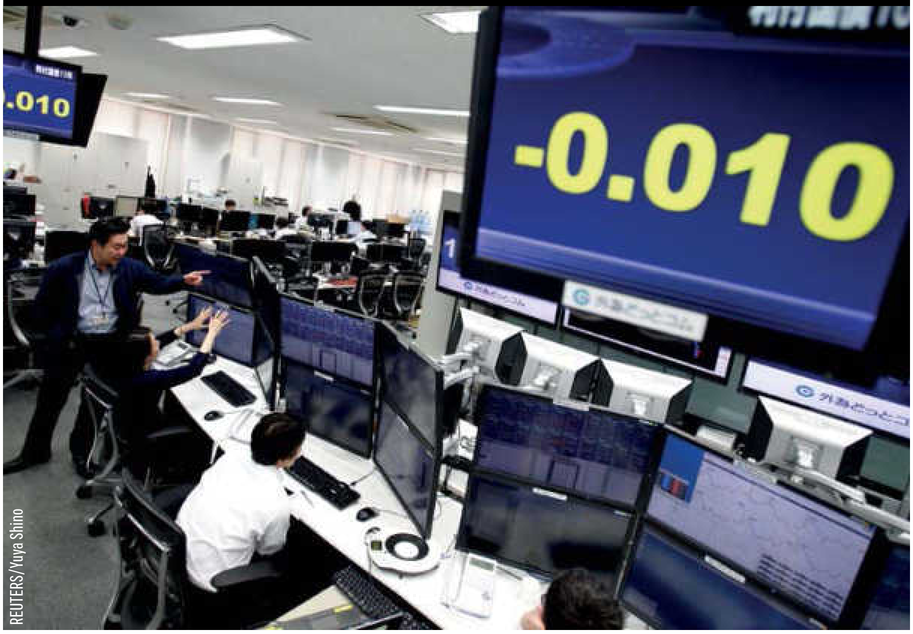
"They are buying my app and that's one revenue stream that's working," he says. ■

editorial@finweek.co.za



Negative territory

STILL UNDER PRESSURE



REUTERS/Yuya Shino

Employees of a foreign exchange trading company work under monitors displaying the 10-year Japanese government bond yield in the Japanese capital Tokyo, during the second week of February.

BANKS OUT OF AMMO

-10%

Bank of Japan headquarters in Tokyo

Kiyoshi Ota/Bloomberg via Getty Images

Japan's Nikkei was down more than 5% on 9 February as it became clear that the Bank of Japan's January decision to lower interest rates to below zero was not likely to prevent a slowdown in the economy, Reuters reported. Japan's interest rate is currently at -0.1%. At the time of going to print, the index was already down more than 10% since the central bank's decision to opt for negative interest rates. theguardian.com quoted analysts as saying that this was an indication that central bankers were "out of ammunition" and would not be able to stop the global rout. "The artificial support from central banks is at a crossroads," IG's Evan Lucas told the paper. "Central bank intervention will no longer create the holding pattern of the past year."

LONG-TERM APPROACH

0.5%

The Bank of England (BoE) is likely to delay any interest rate rises until at least 2020, according to a forecast by the Economic Intelligence Unit (EIU), according to theguardian.com. UK interest rates are currently at an historic low of 0.5%. This followed a comment by the governor of the Bank of England, Mark Carney, saying the UK faced "a powerful set of forces" preventing an increase in rates. "The vulnerability of the UK recovery, combined with the more decisively dovish tone at the BoE, has led to a significant change in our call on monetary policy. We no longer expect tightening to begin in the final quarter of this year. We now expect the BoE to hold off tightening for the next four years at least," EIU was quoted as saying.

UK interest rates are currently at an historic low of

0.5%.

#trending on fin24.com

SA start-up aims to kill parking tickets

A mobile application that promises a cashless and ticketless parking system at malls was launched on 9 February. Drivers are required to download the app, called KaChing, to their mobile phones. During this process, users are also required to register their vehicle number plates. KaChing has cameras at all entrances and exits at the malls where they operate. Licence plates are recognised when drivers enter and exit the mall. The booms will then automatically open, and the parking fee will be deducted from the user's credit card or prepaid account.

09/02/2016 15:22

Sanral using private debt collectors for e-toll fees – Outa

The use of an SMS that directs Gauteng e-toll users to pay outstanding fees is illegal, the Organisation Undoing Tax Abuse (Outa) said on 10 February. Sanral is currently sending messages that include the threat of legal action to unpaying e-toll users. At the same time, Outa claims that the number provided at the end of the message is not that of the Sanral Violations Centre, as the message suggests, but that of a private collection centre "whose employees appear to have been instructed to misrepresent the nature of their employment". According to Outa both actions contravened rule 5.3(b) of the Debt Collectors Code of Conduct.

10/02/2016 7:54

Largest diamond found in 100 years named

The largest diamond discovered in 100 years, and second in size only to the Cullinan diamond in the British Crown jewels, has been named at the African Mining Indaba. Lucara Diamond Corporation, which found the diamond at its Karowe mine in Botswana, launched a competition to find a name for the 1 111-carat diamond, and decided on "Lesedi La Rona", which means "our light".

09/02/2016 15:58

By Marcia Klein

Amsa's search for answers

The state of affairs at ArcelorMittal SA is dire, with shareholders taking a massive knock over the past year. While major challenges have been dealt with, a lot still needs to happen to put the company on a strong growth path.

ArcelorMittal SA (Amsa) was on the road to survival, its CEO Paul O'Flaherty said in a conference call ahead of Amsa's financial results, and O'Flaherty's departure, both of which take place after *finweek* goes to press.

During the first week of February, he updated shareholders, who have seen their investment diminish by 70% over the last year, on where the company stands. (Also see page 19.)

It is not a pretty sight, with impairments of over R4bn and a review of the ongoing viability of the Saldanha operations following a similar review at Vanderbijlpark.

But at least some of the major challenges have been dealt with. These include:

■ The gazetting of three of 10 applications for an increase in custom duties on imported primary steel that is also locally produced from 0% to the bound rate of 10%, a move which will assist the company in fighting off cheap imports. Five have been approved by the International Trade Administration Commission (ITAC) and the minister of trade and industry.

■ The resolving of Competition Commission issues which will see it pay R1.5bn over five years. It has made a R1.245bn provision in the current results.

■ Negotiation of a new iron ore contract with Kumba, ensuring Amsa pays market-related prices for iron ore.

■ Completion of a R4.5bn rights offer.

Amsa's trading update reflected:

■ A R568m write-off on deferred stripping costs; a R378m impairment of property, plant and equipment on the closure of the Vaal Meltshop; a R233m write-down on iron ore stock; a R350m retrenchment provision on the Thabazimbi mine closure; a R1.245bn provision for a Competition Commission penalty and R200m for closure costs at Thabazimbi.

■ Total pre-tax impairments of R4.254bn include the Vaal Meltshop and a R3.574bn impairment related to Saldanha Works. O'Flaherty said poor international steel export prices and extremely high local electricity tariffs have led Amsa to review the future of the operation. The impairments also include R302m relating to the investment in the Northern Cape Iron Ore Mining Operations due to depressed iron ore prices.

The loss per share for the year to December will be a massive 54 times higher than the previous year. In December 2014 Amsa recorded a loss of 39c a share, from 535c in the previous year. Its net loss was R158m, from R2.2bn in 2013.

Saldanha woes

O'Flaherty said Amsa has impaired the Saldanha Works assets and "its future is something we're currently reviewing". He said electricity tariffs "don't make it a viable proposition" during the winter months.

"We need an electricity solution. We are looking at all avenues and making sure we make the right decision. If we reline [refurbish] Saldanha, we need an investment of R1bn. The first answer is going through the gazetting process [to get import tariffs increased].

"We know that in winter, you just cannot make money at today's prices and exchange rate. We are looking at the potential of a mini reline, an extended reline for two years – that's where our strategy is at the moment, so that it doesn't absorb cash and is EBITDA [earnings before interest, tax, depreciation and amortisation] neutral."

> **"We know that in winter, you just cannot make money at today's prices and exchange rate."**

Saldanha has excellent capacity to roll thin-gauge steel, he said, so it has identified a unique, specific market. The original business case for Saldanha was a low iron ore price, cheap transport and cheap electricity, a combination which does not exist at the moment, so Amsa has to completely change the business model.

The current plan is to shut down in winter, and use that time to sell thin-gauge stock, he said. But without a new line, "Saldanha cannot have its 20-year life."

Asked about the competition issues, he said the cases go back to 2004 and 2005 and transgressions were ceased at that time. Employees are now trained so he was comfortable that behaviour was not going to continue.


Paul O'Flaherty
Outgoing CEO of Amsa

On the tariffs, he said that if Amsa got protection: "We cannot go back to a world where we charge what we like… the bottom line is these are tough times and we need to protect jobs and make sure the industry survives.

"We need to get rid of the dumping and low-cost sales from China," he added.

A renewed cautionary to shareholders relates to a BEE deal that is near finalisation after years of controversial deals that were scuppered.

O'Flaherty believed that following all the initiatives, Amsa had "reasonable prospects going forward".

"As it is we are cash-flow generative, and following the rights offer and the conversion of a R3.2bn loan into equity, current assets are more than current liabilities."

The selection of a new CEO is proceeding and there is a shortlist. In the meantime, chief financial officer Dean Subramanian will act as CEO. ■

editorial@finweek.co.za

Amsa's results for the year to December were due for release on 12 February, after finweek *went to press. It was also O'Flaherty's last day in office as CEO.*

By David McKay

The dust hasn't quite settled

After pulling out of a bidding war with CoAL over a third company, IchorCoal remains vocal about CoAL's (in)abilities, making for quite the bitter atmosphere between the two companies.

Gallo Images/iStock

The bidding contest between Coal of Africa (CoAL) and IchorCoal, a firm listed in Germany, over a third company – Australia's Universal Coal – seems to have ended after IchorCoal declined to extend its cash offer.

This leaves CoAL in pole position to conclude its $89m bid for Universal Coal, which will be completed by means of a reverse takeover. A meeting of CoAL shareholders has been scheduled for 3 March.

Yet a level of rancour between CoAL and IchorCoal lingers on.

David Brown
CEO of CoAL

David Brown, CEO of CoAL, responded irritably to insinuations by IchorCoal that his firm didn't have the firepower to support the takeover of Universal Coal, a company which has lined up about 4m tons of thermal coal production from Mpumalanga.

Nonkululeko Nyembezi-Heita, CEO of IchorCoal, said it would be "helpful" to shareholders assessing CoAL's offer if further detail was provided about the debt burden CoAL will assume. Based on pro forma financial results provided by CoAL, it would have gross debt of $100m before interest with "significant near-term repayments". This compares to only $59m in available cash, she said.

Nonkululeko Nyembezi-Heita
CEO of IchorCoal

Given CoAL's project development obligations and forecast near-term cash flow, Nyembezi-Heita said further detail on CoAL's ability to service this debt burden would be useful to shareholders, especially as both CoAL and Universal have significant project pipelines including the New Clydesdale Colliery (NCC), which Universal bought from Exxaro Resources.

"Taking into account Universal's own project development activities at NCC, as well as its own debt service obligations, IchorCoal does not anticipate that Universal will pay material dividends, if any, in the near term to contribute to CoAL meeting its project development and debt obligations," she said. Universal Coal had negative net operating cash flows of AU$2m ($1.41m) in the half-year ended 31 December.

"[It] has never declared a dividend and has not announced an intention to declare a dividend in the near term," said Nyembezi-Heita, who was also critical of the fact that Universal had not yet signed a long-term coal supply agreement with Eskom.

Brown said CoAL would consolidate Universal Coal, which would allow it to use the proceeds of its own cash flow to pay for capital obligations. In addition, CoAL was partly funding the takeover through convertible loan notes, not just cash. It was also raising its own cash in the process and was unlikely to tap its own cash pile, he said.

Still, it's worth noting that IchorCoal is a shareholder in Universal Coal by dint of a shares-for-cash investment in 2014 giving it a stake of 29.99%. CoAL will need IchorCoal to agree to its offer for the takeover to fully take effect.

Based on pro forma financial results provided by CoAL, it would have gross debt of

$100m

before interest.

Brown doesn't think this will be a problem as CoAL's offer far exceeds the level IchorCoal was prepared to pay for the company. "It's in the interests of both shareholders to extract value from Universal Coal," he says.

One final point is that Nyembezi-Heita will have to decide whether it makes sense to have the Universal Coal investment when she wants her company to become a sizeable operator. She said in 2015 that current conditions supported the consolidation of SA coal production and that IchorCoal wanted to play a role in the process building a portfolio of up to 15m to 20m tons/year. ■

editorial@finweek.co.za

By David McKay

Does Harmony have a serious growth story?

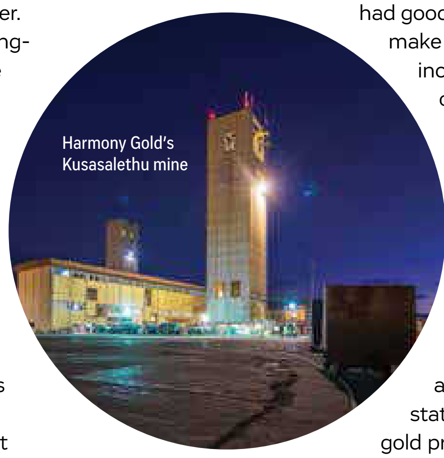
Things have been looking up for the gold producer and the new CEO, Peter Steenkamp, has stepped into a slightly more positive environment. But what can we expect from the company in the wake of its improved fortune?

Peter Steenkamp couldn't have had an easier introduction as the newly-appointed CEO of Harmony Gold following a 155% improvement in the firm's share price since December (also see page 18). To be fair to his predecessor, Graham Briggs, however, the appreciation has had little to do with the change in leadership.

Peter Steenkamp
CEO of Harmony Gold

As the owner of the most marginal of SA gold assets, Harmony has benefitted from last year's 45% depreciation in the value of the rand against the dollar, most of it in the final months of 2015. As a result, Harmony receives roughly R130 000 more per kilogram for gold it produces today than it did in December.

Consequently, Steenkamp and Harmony's long-serving CFO, Frank Abbott, are talking of a more aggressive pay-down in net debt and even of dividends, even though shareholders have enjoyed some pretty impressive capital gains in the share.



Harmony Gold's Kusasalethu mine

"We want to pay a dividend if we can," says Steenkamp. "But we will look at our capital requirements, the cash-on-hand and debt before we do that. Yes we would like to resume dividends," he tells *finweek* in an interview.

That will be music to the ears of shareholders such as African Rainbow Minerals (ARM), Allan Gray, and the gold fund of New York-based asset management firm, Van Eck, which own a combined 40% of the company.

It will also serve as a degree of vindication for Patrice Motsepe, executive chairman of ARM and Harmony.

Motsepe has long been criticised for hanging on to the firm's 15% stake in Harmony, even in the face of an informal approach last year by Neal Froneman's Sibanye Gold for Harmony shares. Motsepe will no doubt point to the wisdom of keeping faith with gold.

Production is higher for the third successive quarter and there have been some important improvements in grade...

Motsepe will also be heartened by the fact that the improvement in Harmony's fortunes is not just informed by exogenous factors. Harmony's operating metrics have been rising by dint of the more than two years' restructuring efforts of Briggs who retired from the company in December. Production is higher for the third successive quarter and there have been some important improvements in grade – the ratio of gold versus waste rock the company is able to retrieve.

The one problem in the group is Kusasalethu, the West Rand mine that continued to be loss-making in the December quarter and which has had a querulous, restive workforce in the past related in part to the change in union dynamics, which has seen the Association of Mineworkers and Construction Union (Amcu) become the majority representative.

"We have commissioned someone to do [a] full assessment of the mine," says Steenkamp. "It has had infrastructural problems but it's stuff that we can fix. We think the labour is okay at the mine; it has always had good teams, so we'll give it six months. It can make money at this gold price," he says. Steenkamp, incidentally, was previously the chief operating officer of Harmony Gold before leaving for the ill-fated Pamodzi Gold. He was last head of Sasol's mining division.

Above all of these factors, however, is whether Harmony has a serious growth story. Steenkamp thinks so: "We have assets in SA that have good reserves and offer expansion potential," he says. The improved rand gold price may also allow for a restatement of reserves the company will be able to economically mine – although Steenkamp states: "We will be careful not to start following the gold price by going into low-grade areas. We'll continue to budget on R450 000/kg," he says. The current price is about R570 000/kg.

And then there's Wafi-Golpu, the enormous Papua New Guinea gold project Harmony shares in joint venture with Australia's Newcrest Mining. Analysts have wondered through the years whether Harmony has the balance sheet to raise the tens of millions of dollars required to build the project.

Citi analyst Johann Steyn thinks not and recommended Harmony sell its stake in Wafi-Golpu, especially since it doesn't get any credit in its share price for the holding. Says Steenkamp: "That would be like winning a ticket to take out the Rag Queen and then give it to your mate."

Details of the cost, feasibility and scheduling for development of the project is due in the current quarter. "The cost of building the project in the first few years is not big and I think we will demonstrate this," says Steenkamp. "We may sell it in the future, but the issue is getting it into the share price," he adds. ■

editorial@finweek.co.za

market place

Don't miss:

The *finweek: Money Matters* show every Friday at 1PM on CNBC Africa, channel 410. In the show, we talk to experts about this issue's top stories.

FUND IN FOCUS: QUANTUM BCI WORLDWIDE FLEXIBLE FUND OF FUNDS **By Jaco Visser**

Opportunity despite SA's lacklustre economy

The fund aims to invest half its capital in emerging markets and the other half in developed-market assets. The fund invests in underlying unit trusts, and other collective investment schemes, with an exposure to global assets.

FUND INFORMATION

Benchmark:	CPI + 6% per year
Fund manager:	FC Greeff
Total expense ratio (TER):	3.54%
Fund size:	R106.3m
Minimum lump sum / subsequent investment:	R1 000 monthly / R10 000 lump sum
Contact details:	info@quantumwealth.co.za or 012 346 0084

PORTFOLIO COMPOSITION

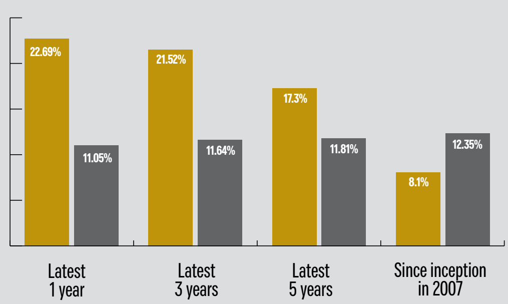
as at 31 December 2015:

1	BCI Best Blend Global Property Fund	18.2%
2	Quantum BCI Core Income	10.4%
3	Prescient China Balanced Fund of Funds	8.1%
4	Stanlib European Equity FF	7.7%
5	Ashburton India Equity Opportunities Fund	7.6%
6	Coronation Global Emerging Markets Flexible ZAR A	7.5%
7	Nedgroup Investments Global Equity Fund of Funds	7%
8	Rudiarius BCI Africa Equity Fund	7%
9	MI-PLAN IP Sarasin EquiSar Fund of Funds	6.9%
10	DB X-Trackers MSCI Japan	4.7%
	TOTAL	**85.1%**

% RETURNS

(annualised) as at 31 December 2015:

Quantum BCI Worldwide Flexible Fund of Funds **Benchmark**



Fund manager insights:

The fund is optimistic about the long-term growth opportunities, resulting from structural reforms to both the Chinese and Indian economies – the two largest markets by population in the world.

"The fund's foreign investment is split 50/50 between emerging- and developed-market assets," says Alicia Pieterse, an investment analyst at Quantum Asset Management, based in Pretoria. "There are more opportunities in these emerging markets and they have larger economic growth potential."

The Chinese government is adjusting its economy away from being the world's largest manufacturer of goods to one that is more focused on domestic consumption. This has led to a marked slowdown in the country's economy, spurring a slump in commodity consumption. This eventually hit South African producers of minerals.

India's economy, which is far less reliant on commodity exports than SA, for example, is benefitting from the lower commodity prices, says Pieterse.

"It's one of the few emerging markets that isn't a commodity exporter," she explains. "The country's central bank cut interest rates by 50 basis points last year and we believe there is scope left for a further decrease."

The Indian central bank cut rates when many emerging-market peers started increasing theirs in a bid to pre-empt the Federal Reserve's monetary tightening cycle, which kicked off in December. Rising interest rates in the US and certain local political factors have hit the rand, which traded at record lows over the past two months.

"In the short term, the rand may pull back a bit," says Pieterse. "It is generally accepted that the currency is oversold."

In addition, finance minister Pravin Gordhan's Budget Speech may restore some of the trust SA lost as a result of the finance minister debacle late last year, she says. "But as the Fed continues to increase interest rates gradually over time, more money will continue to flow out of emerging markets, including SA."

Why *finweek* would consider adding it:

The weak rand has bolstered local unit trusts invested offshore over the past two years. This has led to a large influx for fund managers operating these funds. The unit trusts have also outperformed other fund classifications over multi-year periods and by wide margins.

It is necessary to heed caution with offshore funds. As Pieterse points out, much of the fund's growth over the past 12 months was as a result of the rand's pithy performance. Nevertheless, an investor should look at their investment pool from a geographic point of view too. SA's lacklustre economic performance is partly due to changes in countries thousands of miles away, China being the biggest culprit. When the very reason for the domestic growth qualms could be an opportunity to make money, why not grab it? ■

editorial@finweek.co.za

CITY LODGE*

BUY SELL HOLD

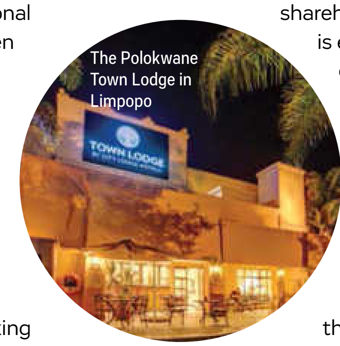
By Simon Brown

Sleep easy with this stock

On page 20 of this issue, I write about my recent stay in a City Lodge – it reaffirmed that the hotel group really does stick to its model of low cost but functional hotel rooms. While I have been exiting SA Inc. stocks for the most part, I kept this one as it will benefit from businesses shopping down for their hotel stays, although we'll likely see less business travel if the economy really suffers. But that will be offset to a degree by foreign tourists taking advantage of the weak rand. During my recent stay, I noticed that the hotel's guests were mostly local business travellers but there were also local and international holidaymakers.

I really like the stock and am a happy shareholder but at current prices it is expensive, with the price-to-earnings ratio (P/E) above 20 times and the dividend yield only some 2.5%. The recent trading update said diluted headline earnings per share (HEPS) would increase between 16% to 21%, a good number but really only in line with a stock that has a P/E of over 20 times. If the share price weakens to the low R100s, I will start buying more. ■

The writer owns shares in City Lodge.



The Polokwane Town Lodge in Limpopo

www.images.clhg.com

Last trade ideas

- BUY Metrofile
- BUY Netflix
- AVOID AB InBev
- HOLD Astoria

NEW EUROPE PROPERTY INVESTMENTS

BUY SELL HOLD

By Moxima Gama

An ideal choice for euro exposure

Nepi, short for New Europe Property Investments, was co-founded by South Africa's Resilient property group in 2007 with the aim of building a footprint in retail properties in emerging EU markets with high growth potential. (Resilient retains a stake of nearly 10% in Nepi.)

Today, Nepi is the largest owner of retail space in Romania, with 11 regional malls and nine value centres in its portfolio.

It also invests in A-grade offices. It expanded into Slovakia in 2013 and acquired its first mall in Serbia in 2014.

Nepi plans to further expand its portfolio in these three countries (in the six months to end September 2015, its assets in Romania accounted for 82% of revenue), as well as into countries that are recent or potential candidates to EU membership.

These target markets include the Czech Republic, Hungary, Bulgaria and Croatia.

Nepi's investment strategy is biased towards long-term leases in euro with strong corporate contracts – 62% of the contracted rentable area is occupied by large tenants and major franchisees. The group, which is listed in Johannesburg, Bucharest and London, has reported a 17% annual growth rate in distribution over the past five years. Its policy is to distribute at least 90% of its net rental profits on a semi-annual basis.

In November 2015, the group successfully issued a €400m unsecured 5.25-year Eurobond, with the proceeds earmarked for general corporate purposes including acquisitions, as well as to refinance some existing debt.

For local investors, Nepi is particularly attractive as it offers effectively 100% euro exposure without individuals having to access their foreign allowance. Nepi, with its focus on emerging EU nations, has room for further gains in the short term.

How to trade it: Upside above 18 000c/share would end the current near-term correction and extend the prior uptrend towards the 24 000c/share target. A fair stop-loss should be followed. However, investors should revise long positions above 19 500c/share as Nepi may encounter resistance there. Stay long if upside were to continue above that level. ■

editorial@finweek.co.za

Nepi owns 70% of Mega Mall in Bucharest, Romania

www.nepinvest.com

The group, which is listed in Johannesburg, Bucharest and London, has reported a

17%

annual growth rate in distribution over the past five years.

Last trade ideas

- SELL Woolworths Holdings
- BUY Reinet Investments
- BUY British American Tobacco
- HOLD Capitec Bank

By Moxima Gama

HARMONY GOLD

Can the run in Harmony's shares last?

Harmony shares have jumped 155% since the beginning of the year. Granted, this was from a base of historical lows. But is the tide turning for this troubled commodity stock?

The price of Harmony Gold shares has more than doubled since the start of the year, buoyed by a rand gold price at record high levels and increased production.

Demand for bullion has increased since the start of 2016 on the back of concerns over the health of the global economy and an expectation that the US Federal Reserve will delay further interest rate hikes, following its first hike in nearly a decade in December.

Further interest rate hikes by the Fed will dampen the gold price, as investors then typically prefer interest-bearing asset classes. Currently, the Fed's dovish stance is slightly positive for gold. And because the metal has already plummeted so much, these cheap prices seem appealing to investors – last month the bullion was the best performing metal. However, if the Fed follows a more aggressive hiking cycle than the market expects, then there could be significant additional downward pressure on commodity prices, particularly precious metals.

For Harmony, the world's fifth-largest gold producer, which mines mainly in South Africa, additional factors are at play. The weak rand has boosted its revenue, allowing it to cut its operating losses and pay off some debt. A two-year wage agreement reached with unions in the latter part of 2015, achieved without a strike, also helped to boost investor confidence. (Also see page 19.)

Peter Steenkamp, who took over as CEO from Graham Briggs in January, said higher production helped strengthen cash flow and improve margins. "We are able to repay our debt and to fund Golpu (Wafi-Golpu is Harmony's major development project in Papa New Guinea). The higher rand per kilogram gold price is simply an added bonus," Steenkamp was quoted as saying in *Business Day*.

In the six months to end December, Harmony reported a net loss of R445m, down from a loss of R1bn over the same period in 2014. On a quarter-on-quarter basis, Harmony's production profit jumped 84% to R1.29bn.

The 155% jump in Harmony Gold shares since the start of the year is from historically low levels, after the group lost 53% of its market value last year, the biggest drop of 15 major producers tracked by Bloomberg Intelligence. With Harmony coming off such a low base the question begs, is it still cheap enough to consider?

52-week range:	R7.92 - R42.06
Price/earnings ratio:	-8.6
1-year total return:	17.92%
Market capitalisation:	R16.75bn
Earnings per share:	-R1.19
Dividend yield:	-
Average volume over 30 days:	5 637 792

SOURCE: INET BFA

What next?

Possible scenario: Risk-takers are finding current levels attractive, despite the uncertainty over the outlook for commodity prices. I believe gold stocks are very risky, and company dynamics remain uncertain. But the current upside is sentiment driven. On the charts, Harmony has broken out of the third and final phase of its primary bear trend. A huge bottoming-up pattern could be forming between 4 320c/share and 840c/share. The ascending phase of the bullish reversal pattern would kick in above 4 320c/share, potentially triggering upside to either the 6 875c/share resistance level or the major resistance trendline of the bear trend (black bold trendline).

Alternative scenario: Harmony would return to its previous steep bear trend below 1 660c/share, which would increase the chances of support at 840c/share being breached. All-time lows could then be reached. ■

editorial@finweek.co.za

HARMONY GOLD

SOURCE: MetaStock Pro (Reuters)

Moxima Gama has been rated as one of the top 5 technical analysts in South Africa and outperformed the market during the recent recession. She has been a technical analyst for 10 years, working for BJM, Noah Financial Innovation and for Standard Bank as part of the Research Team in the Treasury Division of CIB.

By Simon Brown

Simon's stock tips

Founder and director of investment website JustOneLap.com, Simon Brown, is *finweek*'s resident expert on the stock markets. In this column, he provides insight into the week's main market news.

ARCELORMITTAL

Painful trade update

The ArcelorMittal SA trading update made one's eyes water as the loss per share is expected to be over 2 100c, around three times the current share price. This is the result of continued weak demand and write-downs of various assets. The recently concluded rights issue helps, but most of the new money is being used to repay a loan to the parent company. The parent has also just announced a rights issue of $3bn. I wonder if the parent will perhaps make an offer to buy out minorities in the local operation. Government may not like it but at current price levels ArcelorMittal is worth some $550m and the parent owns almost 50%, making for a very cheap delisting exercise.

FINBOND MUTUAL BANK

Taking on the US and Canada

Finbond announced a series of transactions for a little over $21m that will see it moving into the US and Canadian short-term lending market. This requires a rights issue of R525m to pay for the acquisitions and provide working capital. The result will be a great rand hedge as they expect 40% to 50% of profits to be from this acquisition within a year. This deal fits very well within the current short-term lending model it uses in South Africa, and entering the US market via acquisition is a much better idea than a greenfield start-up. But this is not without its risks. Rolling a business model into completely new markets doesn't always work and one wonders why no US company snapped up these US businesses. But Finbond's management has proved itself over the years and if it can make this work, it markedly changes the locally listed company.

VODACOM

Not cheap, but worth it

With the MTN woes continuing, the Vodacom trading update provided welcome relief to telco investors. Vodacom reported revenue growth of 8.7% (7.6% on a constant currency basis) as data continued to grow 27.5% for this period. Overall not shooting the lights out, but for a largely ex-growth stock this is a solid update; it sticks to its business of growing data revenue and customers while protecting voice revenue. For those wanting telco exposure Vodacom may not be cheap but it offers a quality company with a great dividend yield.

Vodacom reported revenue growth of

8.7%

(7.6% on a constant currency basis) as data continued to grow

27.5%

for this period.

HARMONY GOLD

A Mine shaft at Harmony Gold Mining Co.'s Doornkop mine west of Johannesburg

Waldo Swiegers/Bloomberg via Getty Images

Beware the single-commodity stock

Mining is tough in that the most important part of the process can't be controlled: the price received for what is mined. With this in mind management then has to double down on managing what it can: costs, debt, grades and overall output. Harmony has done an excellent job of doing exactly that. Grades have improved in most areas with all-in cash costs decreasing. Added to that, a weaker rand and stronger gold price meant it could produce a good set of results. But I still am not a fan of single-commodity stocks due to the first point – there is no control over the most important part: the selling price. Sure, a mining company offers great leverage, and we've seen the share price rocketing higher, but the safer bet here is investing directly in the metal via a gold ETF.

CLOVER

Might lose to competitors

A trading update from Clover confirmed my comments of last month when I suggested the drought would push farm costs higher and ultimately the price of milk. The flip side was the heatwave boosting beverage sales. But the question is whether consumers will buy higher-priced Clover milk when their wallets are being stretched and alternative milk brands are available at lower prices. In a sense this is a test of the brand's strength, but I feel it will certainly struggle as the high-priced brand in tough economic conditions. ■

editorial@finweek.co.za

By Simon Brown

INVESTMENT

Own a company? Be sure to go on site visits.

When you own a stock, you often forget that there is a physical company behind it – in the case of a consumer-facing business, it will provide a service or sell products. It is important that you visit such companies to ensure that you are (still) happy with their offering.

As investors and shareholders, we tend to focus on results, numbers, profits, ratios… and so the list goes on. But what's the one thing missing from that list? The business. We forget that being a shareholder actually means we own some of that business and a business is a lot more than numbers and ratios. We of course need to understand the business and if we can't, we shouldn't invest in it.

But this brings me to the point: site visits. Think for a moment, if you owned a chain of pizza restaurants, even if you had management in place running them, surely you'd visit them every so often, to try out the pizza and service? So if you own a JSE-listed business, are you doing site visits?

The idea started many years ago when one of the stocks I owned invested in a chain of bars and I jokingly suggested to a friend we go for a site visit to one of the bars. In short, an excuse for drinking beer. But we actually took it seriously and, sure, we drank beer, but we also looked around as owners. We were not very impressed with this branch, so we visited another four bars from the chain over the next few weeks and remained unimpressed. The menus promised a lot but the food was average. Service was slow and the fittings were tired. We decided that, while some bars make great money, this chain was not life-changing for the parent company we owned stock in.

If you owned a chain of pizza restaurants, even if you had management in place running them, surely you'd visit them every so often?

This didn't see us rushing out to sell, but it did temper our expectations of what this acquisition could add to the overall business.

Another example: last week I stayed at a City Lodge*. I travel a lot but seldom stay at any of this group's hotels. I was impressed; small things like having to pay for the newspaper in the morning fitted very well with the low-cost culture. The room was surprisingly large and well-appointed.

Overall the hotel did not look or feel cheap, yet charged half the price the competition across the road was charging. This is exactly what you want from a budget hotel. Now, make no mistake, the Road and Town Lodges that City Lodge also offers are a very different story and I will try one of them on a future trip.

But I came away very happy with the company I owned (see this week's House View on page 17), confident that it has not only kept to its mandate of low cost, but that it is also doing this very well.

Now sure, one good or bad experience doesn't reflect an entire business, especially one with many branches. In truth it is largely anecdotal evidence but it does give you insight and, importantly, it makes you feel like an owner – and that's the core part of investing, we actually own businesses.

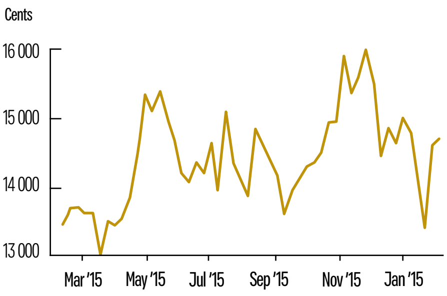
Of course, with some companies you won't be able to go on site visits. For example, a mining company is unlikely to let you visit and go down a mineshaft. But in the case of a consumer-facing business, you absolutely can do this and you absolutely should. View it as more than just a shopping (or beer-drinking) experience. Spend some time looking at the business just like an owner of the business would. What do you like? What don't you like? Does it fit within the logic of why you bought the share in the first place?

If it doesn't, you can write to the CEO with suggestions, but if it really doesn't meet expectations, maybe you have a misplaced investment and should consider exiting it. ■

editorial@finweek.co.za

The writer owns shares in City Lodge.

CITY LODGE



52-week range:	R125.99 - R164
Price/earnings ratio:	19.92
1-year total return:	10.31%
Market capitalisation:	R6.2bn
Earnings per share:	R7.23
Dividend yield:	3.19%
Average volume over 30 days:	10 462

SOURCE: INET BFA

By Craig Gradidge

MULTI-ASSET FUNDS

Doing away with sideshows

The last decade has seen a move towards multi-asset funds. *finweek* unpacks why this is, as well as what to consider when opting for them.

One trend to emerge from the collective investments (unit trusts) industry over the past decade has been the increasing popularity of multi-asset class funds. Multi-asset funds are able to invest, within certain restrictions, in the various asset classes. Those asset classes are equities, cash, bonds, and property. The funds are usually invested in these asset classes both locally and offshore.

The attraction of multi-asset class funds is that the allocation to the asset classes is left up to the fund manager and their team. Allocating between asset classes happens quite efficiently and, importantly from the perspective of the investor, does not trigger capital gains taxes (CGT). If the investor, alone or with the assistance of a financial adviser, were to reallocate between asset classes then CGT would be triggered. There would be additional leakage from higher costs associated with the investor making all the switches.

Performance

Multi-asset class funds have become popular since the introduction of FAIS (Financial Advisory and Intermediary Services Act) legislation in 2004, when many advisers became uncomfortable with the idea of making asset allocation decisions for clients. The introduction of CGT was also a factor in the increasing popularity of these funds. The question that arises is whether or not these funds have delivered good enough returns to clients to justify the move, and to warrant their ongoing popularity.

The table below right shows returns for the various growth-orientated multi-asset sectors compared to equities and listed property.

A popular market commentator recently described balanced funds (multi-asset – high equity) as "a mixture of ice cream and sh-t..." It is important to note that his company primarily offers share portfolios to clients so he is unlikely to offer an objective view on any competing product offering. However, it is interesting to note that the best-performing balanced fund outperformed the best-performing equity fund over the past decade, and at 35% less volatility.

However, it is interesting to note that the best-performing balanced fund outperformed the best-performing equity fund over the past decade, and at **35%** less volatility.

Perhaps there is a lot more ice cream in that mixture than he'd have us believe. The four largest balanced funds (Allan Gray, Coronation, Foord and Investec) have all outperformed the JSE since their respective inception dates.

Can multi-asset class funds deliver going forward? Yes. The main advantage multi-asset class funds have over single asset class funds is optionality, and the ability to protect against downside risk. A single-asset class fund will be required by law to maintain a high exposure to that asset class, even though the outlook for that asset class may have deteriorated. Multi-asset managers are able to consider other asset classes, or have a big allocation to cash while they wait.

A single-asset class fund will be required by law to maintain a high exposure to that asset class, even though the outlook for that asset class may have deteriorated.

I expect balanced funds to remain popular with compulsory (retirement) monies, but think that flexible funds will continue to grow in appeal. Our preference for discretionary investors with sufficient risk appetite and a growth objective is worldwide flexible funds, as these give the managers unfettered access to all the asset classes. Early evidence suggests that investors should get an additional return over balanced and South African flexible funds.

A well-managed multi-asset class fund takes the investor away from sideshows such as active vs passive, growth vs value, and large cap vs small cap. The key thing for investors to look out for is the managers' capability and track record when it comes to managing asset allocation mandates, their attitudes to risk, and cost structure.■

editorial@finweek.co.za

Craig Gradidge is a co-founder of Gradidge-Mahura Investments.

GROWTH-ORIENTATED MULTI-ASSET SECTORS COMPARED TO EQUITIES AND LISTED PROPERTY:

Fund category	Top performer: 10 years	Rank	Sector average: 10 years	Rank	Average volatility
Equity – general	16.37%	4	12.12%	R226bn	10.79
Real estate – general	17.68%	2	15.84%	R50bn	13.38
Multi-asset – medium equity	11.75%	6	9.9%	R83bn	5.54
Multi-asset – high equity	17.26%	3	11.12%	R456bn	6.97
SA – multi-asset – flexible	19.15%	1	10.8%	R41bn	8.46
WW – multi-asset – flexible	15.82%	5	13.56%	R32bn	9.97

THE DIFFERENT MULTI-ASSET CLASS FUNDS AVAILABLE TO INVESTORS:

Category	Constraints	Objective
SA – multi-aset – income	Maximum 10% offshore/property	Income
SA – multi-asset – low equity	Maximum 25% equity	Income and growth
SA – multi-asset – medium equity	Maximum 60% equity	Growth
SA – multi-asset – high equity	Maximum 75% equity	Growth
SA – multi-asset – flexible	Minimum 70% in SA	Growth
Worldwide – multi-asset – flexible	None	Growth

SOURCE: Morningstar 31 December 2015

By Schalk Louw

COMMODITIES

Boldly go where no one wants to go

With the commodity sector in the doldrums, *finweek* contributor Shalk Louw gives those who are willing to take a chance on this sector some pointers on which miners to invest in.

Three weeks ago, I discussed the way in which we determined how commodity prices are now correctly priced for the first time in over a decade. I also pointed out that if history is to repeat itself, there is no reason why we shouldn't see yet another overreaction and perhaps even lower prices. I made it clear, however, that emotions should be pushed aside when considering selling shares in the commodity sector.

Since then, I have been asked countless times towards which companies I hold a preference for picking up possible bargains in this commodity-weak environment. But before I get to my preferences, I would first like to tell you which factors I take into consideration in order to increase my level of security in this risky sector, purely because historic price-to-earnings ratios (P/Es) are low (for justified reasons) and the historic dividend yield most probably won't be maintained in 2016. With underlying commodity prices heavily under pressure for the past three years, something like the returns-on-equity levels or cash flow will appear to be under just as much pressure. So what should we look at?

Personally, I look at two quality measures: how close to (or ideally, how far below) book value you can buy a commodity share (price-to-book value) and more importantly, who will be able to keep their debt under control in this rising interest rate environment we find ourselves in.

Among the three big guns, Glencore definitely has the most debt with a debt-to-equity ratio of 3.06 times, nearly three times as high as Anglo American's ratio of 1.23 times. But it's BHP Billiton that proves to be the healthiest at the moment with a debt-to-equity ratio of 0.76 times. Remember, however, that Warren Buffett labelled any company with a debt-to-equity ratio of 0.5 times or lower, a 'value play' – a level that isn't too far off for BHP Billiton at this stage. But this debt ratio is likely the most probable reason why Glencore and Anglo's prices are trading at 35% and 22% of their respective book values, compared to their last five-year average of around 110%.

BHP Billiton proves to be the healthiest at the moment with a debt-to-equity ratio of

0.76

times.

BHP Billiton's price-to-book value ratio may be somewhat lower at 0.77, but it provides the patient investor with an opportunity to buy shares in this company at 23% lower than book value, and roughly 20% cheaper than its five-year average.

When looking at smaller companies, the more speculative buyer can consider Merafe Resources. In July 2004, Merafe pooled its assets with Glencore to form the Glencore-Merafe Chrome Venture (Merafe owns 20.5% of the venture). The Venture is the largest producer of ferrochrome in the world and also the lowest-cost producer in South Africa.

Merafe recently released a trading statement indicating that its earnings up to 31 December 2015 should be between 13c and 15c per share. If we take a midpoint (14c), the company is placed at an expected P/E of 5.14 times. This is nearly 61% lower than its last three-year average of 13.1 times.

Ferrochrome demand, as with most other commodity demands, has been under tremendous pressure and very moderate growth is expected for this coming year. What makes this company so attractive is the fact that its debt seems to be well under control and with a debt-to-equity ratio of 0.66 times, it seems that this company has managed its debt very well over the past few years. In the abovementioned trading statement, it was in fact said that there will be a material reduction in debt in the 2016 financial year.

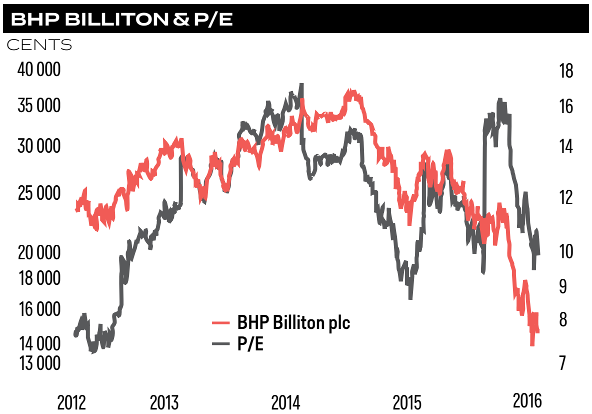
The price-to-equity ratio looks just as attractive: at 0.53, it's not only much lower than its average ratio of 0.98 times since 2008, but it means that we can pick up this share at roughly 50% of its book value at current price levels.

My suggestion to the reader who is looking for exposure to commodity shares would be to look at BHP Billiton, while the more speculative investor should definitely consider Merafe. This sector undoubtedly still poses a fair amount of risk, but the safety margin is gradually on the rise. ■

editorial@finweek.co.za

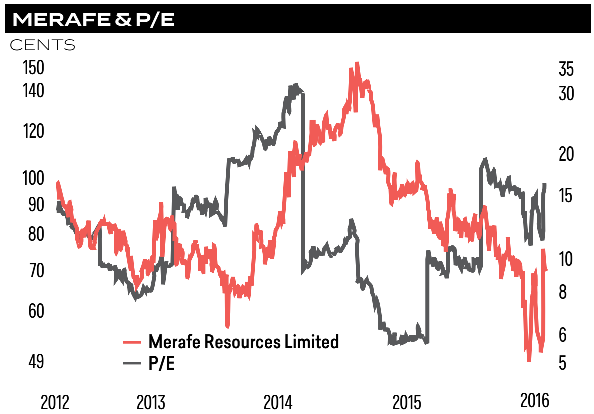
Schalk Louw is a portfolio manager at PSG Wealth.

BHP BILLITON & P/E



SOURCE: INET BFA

MERAFE & P/E



SOURCE: INET BFA

DIRECTORS DEALINGS

COMPANY	DIRECTOR	DATE	TRANSACTION TYPE	VOLUME	PRICE (C)	VALUE (R)	DATE MODIFIED
ARCMITTAL	DCG Murray	18 January	Purchase	9,110	650	59,215	9 February
ARGENT	SJ Cox	8 February	Purchase	1,000	350	3,500	10 February
ARGENT	TR Hendry	4 February	Purchase	1,100	345	3,795	9 February
ARGENT	TR Hendry	4 February	Purchase	315	345	1,086	9 February
ARGENT	TR Hendry	4 February	Purchase	315	345	1,086	9 February
ARGENT	AF Litschka	5 February	Purchase	500	345	1,725	9 February
BSI STEEL	WL Battershill	5 February	Purchase	24,000	37	8,880	9 February
BSI STEEL	WL Battershill	8 February	Purchase	3,460	35	1,211	10 February
BSI STEEL	BM Khoza	4 February	Purchase	2,000	40	800	10 February
BSI STEEL	BM Khoza	5 February	Purchase	2,000	40	800	10 February
BSI STEEL	BM Khoza	8 February	Purchase	5,000	40	2,000	10 February
BSI STEEL	C Parry	8 February	Sell	31,370	40	12,548	10 February
BSI STEEL	C Parry	5 February	Sell	4,486	40	1,794	9 February
BSI STEEL	C Parry	4 February	Sell	3,645	40	1,458	9 February
BSI STEEL	C Parry	3 February	Sell	25,663	40	10,265	5 February
CAPITEC	MS Du P le Roux	29 January	Purchase	66,667	45000	30,000,150	1 February
CAPITEC	GM Fourie	5 February	Purchase	530	48493	257,012	9 February
DATATEC	PJ Myburgh	5 February	Purchase	5,000	4400	220,000	10 February
DATATEC	PJ Myburgh	4 February	Purchase	130,000	4377	5,690,100	10 February
DCENTRIX	JH Coetzee	28 January	Exercise Options	250,000	311	777,500	1 February
EOH	DD Ramoo	27 January	Purchase	2,964	12500	370,500	3 February
FREEDOM	JF Pretorius	2 February	Sell	50,000	13	6,500	3 February
FREEDOM	JF Pretorius	5 February	Sell	302,479	14	40,835	9 February
HUDACO	CV Amoils	29 January	Purchase	10,000	9997	999,700	3 February
HYPROP	KM Ellerine	1 February	Sell	128,000	10110	12,940,800	5 February
HYPROP	KM Ellerine	1 February	Purchase	128,000	10110	12,940,800	5 February
INVPROP	MM Ngoaseng	27 January	Purchase	42,000	1314	551,880	1 February
LIFEHC	PP Van der Westhuizen	1 February	Sell	29,701	3456	1,026,466	9 February
LODESTONE	G Trope	1 February	Purchase	618	640	3,955	5 February
LODESTONE	G Trope	1 February	Purchase	3,000	665	19,950	5 February
LODESTONE	G Trope	1 February	Purchase	16,382	675	110,578	5 February
MEDCLIN	E de la H Hertzog	4 February	Sell	80,567	12300	9,909,741	9 February
MEDCLIN	E de la H Hertzog	4 February	Sell	550,274	12300	67,683,702	9 February
MMG	DC King	28 January	Purchase	1,500	1028	15,420	5 February
NETCARE	N Phillipson	5 February	Sell	38,062	3351	1,275,457	10 February
NETCARE	N Phillipson	5 February	Purchase	38,062	3351	1,275,457	10 February
NICTUS	GRD Tromp	5 February	Purchase	475,318	53	251,918	9 February
NICTUS	NC Tromp	5 February	Purchase	475,318	53	251,918	9 February
OMNIA	WT Marais	28 January	Sell	5,000	12100	605,000	1 February
OMNIA	WT Marais	28 January	Sell	5,000	12100	605,000	1 February
QUANTUMFOODS	WA Hanekom	1 February	Purchase	30,000	230	69,282	9 February
QUANTUMFOODS	WA Hanekom	3 February	Purchase	200,000	234	469,560	9 February
QUANTUMFOODS	WA Hanekom	4 February	Purchase	115,858	240	278,059	9 February
QUANTUMFOODS	HA Lourens	3 February	Purchase	4,261	235	10,013	9 February
QUANTUMFOODS	HA Lourens	5 February	Purchase	82,734	274	226,873	9 February
SPANJAARD	BL Montgomery	28 January	Sell	1	375	3	3 February
SPANJAARD	BL Montgomery	29 January	Sell	6,400	375	24,000	3 February
SPANJAARD	RJW Spanjaard	29 January	Purchase	6,400	375	24,000	1 February
SPANJAARD	BL Montgomery	28 January	Sell	1	375	3	3 February
SPANJAARD	BL Montgomery	29 January	Sell	6,400	375	24,000	3 February
TREMATON	AL Winkler	5 February	Sell	1,500	342	5,130	10 February
TREMATON	AL Winkler	5 February	Sell	132,200	340	449,480	10 February
VALUE	NM Phosa	6 August	Sell	50,000	3409	1,704,500	10 February
VALUE	NM Phosa	7 August	Sell	51,500	3405	1,753,575	10 February
VALUE	NM Phosa	11 August	Sell	103,000	3401	3,503,030	10 February
VALUE	SD Gottschalk	29 January	Purchase	355,027	270	958,572	1 February

All data as at 10 February at 17:00. Supplied by INET BFA.

BEST AND WORST PERFORMING SHARES

SHARE	WEEK PRICE (c)	CHANGE (%)
BEST		
Culinan	155	203.92
Beige	2	100.00
Lonmin	1700	54.41
Wearne	9	50.00
Atlatsa	50	47.06
WORST		
Afdawn	3	-25.00
Chrometco	7	-22.22
Adrenna	120	-17.24
Accent	63	-16.00
RBA	74	-15.91

INDICES

INDEX	WEEK VALUE	CHANGE* (%)
JSE ALL SHARE	48 344.74	-0.39
JSE FINANCIAL 15	14 090.53	-0.07
JSE INDUSTRIAL 25	67 446.37	-2.49
JSE SA LISTED PROPERTY	589.08	-0.12
JSE SA RESOURCES	14 395.64	7.16
JSE TOP 40	42 975.41	-1.09
CAC 40	399 754	-5.43
DAXX	897 936	-6.28
FTSE 100	563 219	-3.51
HANG SENG	1 928 817	1.56
NASDAQ COMPOSITE	426 876	-5.23
NIKKEI 225	1 608 544	-6.43
S&P 500	185 221	-3.15

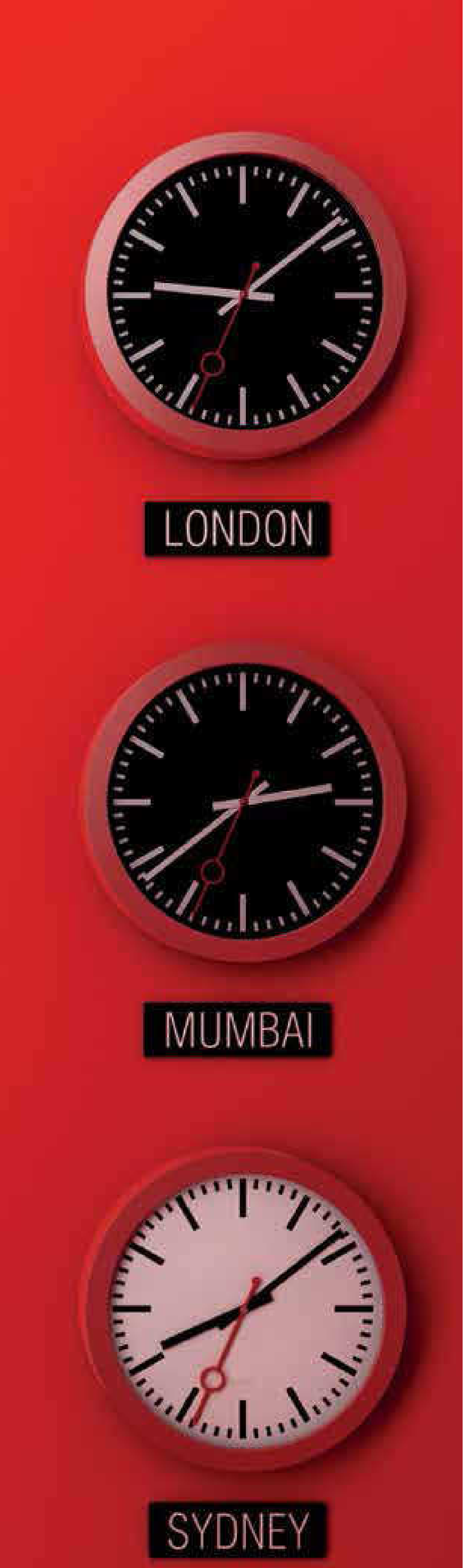
*Percentage reflects the week-on-week change.

DIVIDEND RANKING

SHARE	F'CAST DPS (C)	F'CAST DY (%)
REBOSIS	120	12.7
LEWIS	517	11.6
VUKILE	148	9.7
OCTODEC	203	9.7
EMIRA	146	9.7
ACCPROP	54	9.1
REDEFINE	85	9.1
MTN GROUP	1280	9.1
FORTRESSA	129	8.8
GROWPNT	184	8.2

The current South African economy represents a perfect storm: The rand nosedived more than 45% against the dollar, international institutions, such as the World Bank and International Monetary Fund, predict GDP growth for 2016 won't reach 1%, while consumer inflation compelled the Reserve Bank to hike interest rates by 50 basis points. Are these compelling reasons for investors to take their money offshore? *finweek* investigates.

Getty Images/iStock Images



THE RAND AND YOUR OFFSHORE INVESTMENTS: IT'S ALL ABOUT TIMING

By Liesl Peyper

South Africa's growth prospects are indeed dire, says **Urvesh Desai, global equity manager of Old Mutual Investment Group's Macro Solutions Division.** "If you look around the world there are other countries with better prospects – for both economies and markets.

"However, the biggest factor influencing returns of offshore assets for South African investors is the rand," says Desai. "The moves of the rand have the ability to spectacularly enhance or seriously detract from the returns of offshore investments. So it has to be a serious consideration in the decision to invest money offshore."

Desai argues that the rand in real terms looks oversold and cheap. "This is arguably deservedly so. We have a big current account deficit and the risk of a downgrade has caused significant capital outflows when we actually need inflows. We also lack competitiveness, despite a weak currency, which does not help."

There are compelling reasons for investing offshore: diversification of your assets, which is a key investment principle for reducing risk; and reducing your emerging-market risk.

Going global

Investment managers, however, caution that people should be careful about taking money offshore now.

Tamryn Lamb, head of Orbis Client Servicing in SA, says investors shouldn't position their investment portfolios based on what they hear and read in the news, or expect will happen in future.

"Rather than trying to time a weak rand, we suggest that you instead approach the question of how to diversify your savings and investments by taking a long-term view and balancing the benefits of diversification with your own investment objectives and risk tolerance."

Paul Hutchinson, sales manager at Investec Asset Management, says astute investors as a rule will realise the importance of investing offshore and not follow a strategy that exposes them only to South African assets.

"There are compelling reasons for investing offshore: diversification of your assets which, is a key investment principle for reducing risk; and reducing your emerging-market risk. By world standards we are a small economy with a relatively illiquid and volatile stock market."

Desai, however, warns that at the rand's current levels against the dollar and other denominations people shouldn't have all their investments offshore. "Most multi-asset class funds are at their 25% limit, or more," he says. (Regulation 28 of South Africa's Pension Fund Act pegs the allocation of offshore investments at 25%, which limits investors' ability to hedge their money against rand weakness.)

According to Desai, some investors already have indirect exposure internationally from some of SA's listed equity. "You need to ask yourself what your liabilities are and match those with what is appropriate.

"For example, if you're thinking of sending your children to study overseas, matching it with offshore investments isn't a bad idea. Most of us, though, will have to pay our bills in rands. That means we want to diversify our risk with a bit of offshore investments, but we don't want to mismatch currencies too much," Desai says.

Rate hikes and the rand

The South African Reserve Bank's (SARB's) decision late January to increase interest rates with 50 basis points may help to stabilise the rand, which in turn could control inflation.

The SARB's mandate is to keep consumer price inflation between 3% and 6%. In December, however, inflation climbed to a one-year high of 5.2%, up from 4.8% the month before.

"The rate hike will definitely put more pressure on consumers and borrowers," says Desai, "and we have seen warnings about bank earnings because of higher rates. Although this is bad for consumers, and especially small businesses which are the most vulnerable, it creates a better environment for investing in local bonds."

Orbis's Lamb adds that the recent rate hike in itself does not increase the risk of local investments, but investors should consider all the factors that have led to the decision to hike rates to get a good sense of the local investment environment.

Tamryn Lamb
Head of Orbis Client Servicing in SA

The South African Reserve Bank's (SARB's) decision late January to increase interest rates with **50** basis points may help to stabilise the rand, which in turn could control inflation.

Urvesh Desai
Global equity manager of Old Mutual Investment Group's Macro Solutions Division

Offshore options

THERE ARE THREE WAYS TO INVEST MONEY OFFSHORE:

- Use rands to invest in rand-denominated offshore unit trusts.
- Use foreign currency to invest in foreign unit trusts through an offshore investment platform, which is operated in SA.
- Use a foreign fund manager using foreign currency.

"The first choice to make when investing offshore," says Lamb, "is whether you want to use a fund manager's offshore allowance, or your own. Your choice depends mainly on whether you want to invest in rand or foreign currency and how much you want to invest."

Investors who want a simple solution and don't want to expatriate their assets may want to opt for rand-denominated offshore unit trusts that are available in SA. This route has a number of advantages: you don't need to buy currency, nor do you need tax clearance from the South African Revenue Service (Sars).

"However, these funds may close from time to time, as they are subject to the local manager's foreign capacity constraints," says Lamb. (*Business Day* reported that the current rand weakness means offshore investments have grown disproportionately in rand terms, which has led to local fund managers exceeding the foreign exposure limits.)

Another way to invest offshore is to expatriate your assets if you prefer not to be restricted to the funds available in SA. "The simplest route is to invest in foreign currency offshore funds through an offshore platform that is operated locally," says Lamb.

The third option is to directly approach individual investment offshore companies using your offshore allowance, although this can be complex. It is subject to the SARB's exchange controls, which allows South African investors to invest up to R10m annually offshore, as long as it is accompanied by a tax clearance certificate.

"The simplest route is to invest in foreign currency offshore funds through an offshore platform that is operated locally."

Offshore destinations

Emerging-market currencies have come to lose their appeal over the past year and as a result suffer capital outflows due to higher interest rates in the US.

But Chris Botha, director of fund management at Imara, says the US isn't the preferred destination currently. "European stocks are attractive currently – especially in the consumer discretionary space, as the lower oil price is feeding into consumer demand. We also see an uptick in credit demand in Europe," he adds.

Old Mutual Investment's largest equity exposure is in European markets, says Desai. "Valuations based on normalised earnings are reasonable and there is monetary policy support from the European Central Bank. There is also pent up demand, and earnings and profitability are starting to turn around after the introduction of austerity measures."

Orbis's Lamb says investors have been pulling money out of emerging-market equities and allocating funds towards developed markets. "This trend has been in place for a few years and the more people herd into the same stocks, the more the price is pushed up, which in turn depresses future returns.

"Conversely, as flows continue out of emerging markets, and fear remains high, this can result in selected opportunities. Orbis believes there are increasingly such opportunities in certain emerging markets, such as Korea, Brazil and Russia."

Investing in these markets is not without risk, she says, but neither are developed-market companies at high valuations. "That's not to say that Orbis is not finding selected opportunities in developed markets, such as the US and UK," she adds.

YOU HAVEN'T MISSED THE OFFSHORE BOAT (YET)

Chris Botha, director of fund management at Imara, believes the rand could strengthen to levels of R14.50 or R14.80 against the dollar, especially on the back of finance minister Pravin Gordhan's upcoming Budget Speech at the end of February. "Investors should use that as an opportunity to go offshore. Any strength in the rand should be used to take money overseas." Over the longer term, the rand is however likely to weaken.

A number of global risks, "such as US rate hikes, the devaluation of the Chinese yuan and even a global recession", could push the rand weaker, says Urvesh Desai, global equity manager of Old Mutual Investment Group's Macro Solutions Division. The rand could strengthen if the strong US dollar takes a breather and when China's economy and commodity prices stabilise. "If this happens, and the finance minister tightens our budget, it could be very positive for the rand and our local bonds," explains Desai.

"Eighty-three percent of the Alsi is made up of shares in only four sectors – basic materials, financials, consumer goods and services."

SA companies with global exposure

Locally we have a number of companies listed on the FTSE/JSE All Share Index (Alsi) that house large, globally diversified businesses, such as Mondi plc, British American Tobacco, SABMiller, Steinhoff, Remgro, Naspers* and MediClinic.

"However, it makes up just over 1% of the world's total listed equity universe by market capitalisation," says Lamb. "On the other hand, 83% of the Alsi is made up of shares in only four sectors – basic materials, financials, consumer goods and services. These sectors are only half of the FTSE World Index, which implies that investors on the Alsi are overexposed here, while having too little exposure to the technology and utility sectors."

Desai adds that it's not as simple as looking at a company's proportion of offshore revenue, as particular fundamentals will determine the investment opportunity, and the sector to which a company is exposed should also be considered.

He explains: "Although materials and energy companies have dollar exposure, they have performed quite poorly due to their sensitivity to China via commodity prices and the US dollar. Perennial outperformer Naspers, for example, has been struggling with its Chinese exposure."

According to Desai, direction and market leadership are "chopping and changing", while uncertain global economic circumstances make volatility inevitable. "The threat of low growth, currency devaluations and macroeconomic data are all influencing stock performance more than underlying fundamentals which make life very difficult for stock pickers." ■

editorial@finweek.co.za

*finweek *is a publication of Media24, a subsidiary of Naspers.*

Tax implications of investing offshore

South African residents are (subject to certain exemptions) taxed on their worldwide income, which includes foreign income (interest and dividends) earned during a tax year, says Tamryn Lamb, head of Orbis Client Servicing in South Africa. Therefore, South African residents investing offshore are liable to pay tax on investment income and capital gains.

The withholding tax obligation in some foreign jurisdictions could mean some investors could be double-taxed. SA and some foreign jurisdictions have, however, entered into a Double Taxation Agreement, which aims to eliminate the levying of double taxation by allowing investors to deduct the foreign tax from the South African tax payable on the foreign income.

Where to invest when the tide is turning

By Lameez Omarjee

A year ago, conditions were challenging for price-sensitive equity managers, Greg Hopkins, chief investment officer for PSG Asset Management, said during a PSG briefing in early February on their outlook for 2016. During 2015, US interest rates started to rise, there was a continuous decline in commodity prices, many emerging-market stocks weakened and a number of developed economies risked deflation. Locally, South Africa's stock market was impacted by the lack of economic growth and a weak rand. Blue-chip shares, government bonds and property were viewed as expensive during 2015, he said. At the same time, the yields of these equities were far too low to compensate investors for the risk associated with them, Hopkins explained. Offshore equities and cyclical equities, on the other hand, proved to be good investment decisions at the time.

However, Hopkins believed that the tide has started to turn this year. Falling asset prices are accompanied by lower risk, he said, hence creating more opportunities to invest.

According to Hopkins, government bonds were now "attractively priced".

Cyclical equities also offer a larger margin of safety to investors, allowing investors to take a longer-term approach on their investments.

However, offshore equities were still favourable, as global brands can be bought at "bargain" prices, he added.

Blue-chip shares are still overvalued, he said, since these shares often act as rand hedges, and the currency had weakened over the past year.

The rand should, according to purchasing power parity (PPP) calculations, currently be trading at R10 to the US dollar, said PSG Asset Management's head of fixed income, Ian Scott. It is currently trading at an excess of R16/$, creating a lot of anxiety among investors. ■

3 INVESTMENT TIPS FROM PSG'S GREG HOPKINS:

- Blue-chip shares should be treated with caution.
- Avoid overpriced equities.
- Take a patient, long-term approach.

PSG's top picks

CURRENT TOP 10 IN PSG'S FLEXIBLE FUND:

1. Berkshire Hathaway Inc.
2. J Sainsbury plc
3. Super Group Ltd
4. FirstRand Ltd
5. Capitec Bank Holdings Ltd
6. JP Morgan Chase & Co.
7. Glencore plc
8. Anglo American plc
9. Imperial Holdings Ltd
10. Old Mutual plc

TOP 10 IN PSG'S GLOBAL FLEXIBLE FUND:

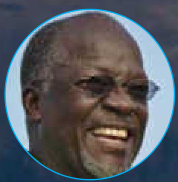
1. Berkshire Hathaway Inc.
2. J Sainsbury plc
3. Brookfield Asset Management
4. Morgan Chase & Co.
5. Microsoft
6. Capital One
7. Markel Corporation
8. Softbank
9. Cisco Systems
10. United Technologies

SOURCE: PSG Asset Management

AFRICA'S SLEEPING GIANT

Tanzanian president John Magufuli wasted no time in taking action against corruption and wasteful public spending when he took office in November last year. The country faces many obstacles to realising its potential and all eyes are on Magufuli and his brazen approach to getting the country on track. *finweek* takes a look at what Magufuli faces and whether or not he is up to the challenge of rousing Africa's 'sleeping giant'.

By Jana Jacobs



John Magufuli
President of Tanzania

President John Magufuli rang in his 56th birthday on 29 October 2015 by winning Tanzania's national election with a 58% majority. Magufuli is a member of the Chama Cha Mapinduzi (CCM) party, Tanzania's dominant ruling party and the longest-ruling party in Africa.

He stepped into the country's top position along with the East African nation's first female vice president, Samia Suluhu Hassan, who comes from Zanzibar.

Corruption and poor governance have become worrying fixtures in Tanzania's political landscape.

Enter Magufuli.

Image: Getty Images/ Charles Bowman/ Photolibrary

Tanzania will be able to maintain its positive growth outlook if Magufuli's government adopts appropriate macroeconomic policies and measures that will improve provision of public services and attract foreign and local investments.

His campaign slogan describes his methods succinctly: "Work and nothing else." Work he has. After he was sworn in on 5 November, he went about the business of cleaning house.

Magufuli has been unequivocal in his commitment to rooting out grand corruption in the nation and taking Tanzania into the future. His message is clear: corruption will not be tolerated, and Tanzanian citizens, opposition party members and observers are sitting up and listening because this president is not all talk.

To start things off, Magufuli appointed only 19 cabinet ministers, 11 fewer than his predecessor; implemented austerity measures, including the immediate ban on foreign travels by public servants; and suspended several senior civil servants for disobeying his directives on austerity measures, as reported by Kenyan newspaper *Daily Nation* in December.

And to bring the message home, he also did away with lavish Independence Day celebrations. Instead, Tanzanians spent the day sweeping the streets, tidying up hospitals and literally cleaning up the country, reported dw.com.

To again prove that Magufuli is a leader that puts his money where his mouth is, he also honoured his campaign commitment to free education: pupils and students that enrolled at the beginning of January will receive free education up to secondary school level, *Daily Nation* reported.

All these measures Magufuli has taken could not have come soon enough "since the level of public debt due to ill-disciplined public spending is alarmingly high and the IMF and donor community have recommended more efforts are needed if Tanzania is to maintain its growth prospects in near terms", says Joseph Sheffu, Country Managing partner for Tanzania EY.

Magufuli's hard-line stance against wasteful spending has not only pleased Tanzanian citizens, but captured the attention of the internet at large, giving rise to #WhatWouldMagufuliDo, which inspired humorous tweets and images following his frugal lead.

Confidence levels in Magufuli are high. He proved his mettle when he served as infrastructure minister, where he made good on his promises and earned his nickname "The Bulldozer" for his steadfast attitude and ability to get things done.

Now, as the political leader of the nation, he shows no sign of slowing down on stringent action to get the country back on track.

Over and above the corruption that has marred the country, Tanzania has been labelled an underperformer in Africa, earning it the 'sleeping giant' moniker. Despite its rich mineral resources and abundance of natural gas, the country has not been reaching its potential and Magufuli has been quite vocal about tapping into this.

He has certainly entered with a bang and his no-nonsense approach to restoring integrity and rousing the country has been welcomed, but this is just the start of a challenging road that will see him having to address a number of structural issues, as well as socioeconomic imbalances in this East African nation.

What is Magufuli up against?

Tanzania, like other developing economies, has suffered from negative market sentiment amid concerns regarding China's growth outlook and increased dollar strength. But Tanzania has proven resilient in the past and initial forecasts expect GDP growth of 7% for 2016.

Sheffu attributes this robustness to the country's strong macroeconomic policies, great financial support from donor communities and perhaps the fact that it has not been so closely connected to international financial systems. He does, however, express concern regarding donor funding, which Tanzania is heavily reliant on: "Decline in the global economy and governance concerns saw donors holding back their funding in the last two years resulting in a lower-than-expected GDP growth rate."

Tanzania has proven resilient in the past and initial forecasts expect GDP growth of 7% for 2016.

Mamello Matikinca, macroeconomic analyst at FNB, cites a better-diversified economy helped the country maintain an impressive average growth rate of 6.5% over the past decade. But she adds that risks remain in the form of regional instability (see box on page 32), declining donor aid (which declined from 4% of GDP in the 2010/11 financial year, to an estimated 1.5% in 2015/16) and prospective setbacks in the implementation of growth-promoting policies.

Another key concern remains Tanzania's fiscal discipline, "especially as it faces multiple socioeconomic challenges such as a rapid population growth, poor infrastructure, poor

Samia Suluhu Hassan
Vice president of Tanzania

Joseph Sheffu
Country Managing partner for Tanzania EY

Mamello Matikinca
Macroeconomic analyst at FNB

A closer look at Tanzania

DEMOGRAPHICS

GDP (2014):
TANZANIA: $48.06bn
(SA: $350.1bn)

GDP GROWTH RATE (2014):
TANZANIA: 7%
(SA: 1.5%)

POPULATION (2015):
TANZANIA: 51 045 882
(SA: 53 675 563)

POPULATION GROWTH RATE (2015):
TANZANIA: 2.79%
(SA: 1.33%)

LIFE EXPECTANCY AT BIRTH (2013):
TANZANIA: 61.17 years
(SA: 62.34 years)

ADULT LITERACY RATE (% POPULATION AGED 15 AND OVER THAT CAN READ OR WRITE – 2015):
TANZANIA: 70.6%
(SA: 94.3%)

HIV/AIDS ADULT PREVALENCE (2014):
TANZANIA: 5.34%
(SA: 18.92%)

POPULATION BELOW POVERTY LINE:
TANZANIA: 67.9% (2011)
(SA: 35.9%) (2012)

SOURCES: CIA, World Bank – as compiled in NKC African Economics report.

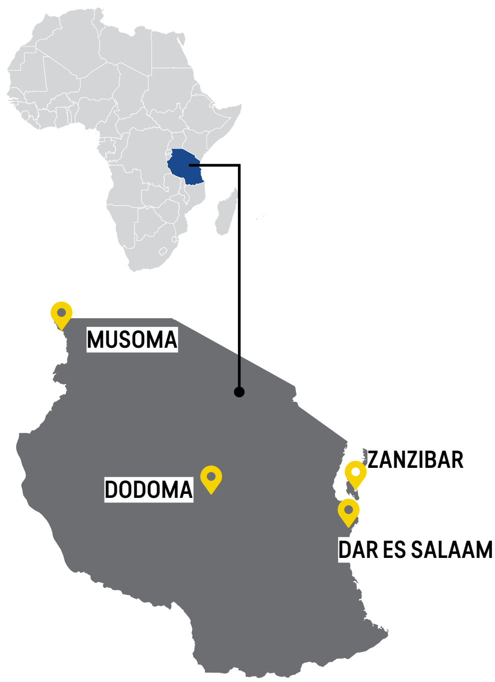
Tanzanian president John Magufuli joins a clean-up event outside the State House in Dar es Salaam on 9 December. Magufuli cancelled Independence Day celebrations and ordered a national day of clean-up instead.

Getty Images/AFP/Daniel Hayduk

FIVE THINGS ABOUT JOHN MAGUFULI:

1. The 56-year-old is a former school teacher, industrial chemist and outgoing works minister.
2. Nicknamed "The Bulldozer".
3. A devout Catholic with a corruption-free reputation.
4. Performed push-ups on the campaign trail to prove he was fit.
5. Pledged to end power shortages and exploit Tanzania's natural gas discoveries.

Originally published in a bbc.com article.

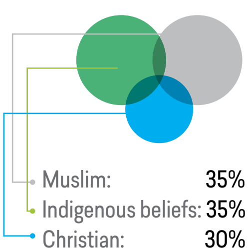


Languages:

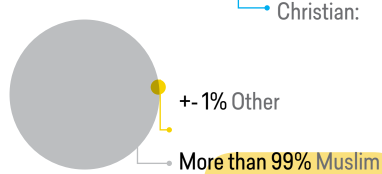
KISWAHILI OR SWAHILI (OFFICIAL), KIUNGUJA (NAME FOR SWAHILI IN ZANZIBAR), ENGLISH (OFFICIAL, PRIMARY LANGUAGE OF COMMERCE, ADMINISTRATION AND HIGHER EDUCATION), ARABIC (WIDELY SPOKEN IN ZANZIBAR), VARIOUS LOCAL LANGUAGES.

Religions

MAINLAND



ZANZIBAR



ECONOMIC FORECASTS

Economic indicators	2014	2015f	2016f	2017f	2018f
Growth	7	6.6	7	7	7.2
Dollar/shilling (annual average)	1 668	2 190	2 200	2 288	2 230
Inflation (period-end)	4.8	6	6	5.4	5
Government budget balance (% of GDP)	-3.32	-4.4	-4.2	-3.8	-3

SOURCES: Bloomberg, Budget office Nigeria, FNB – as compiled in FNB *Tanzania Economics Analyst* report.

healthcare and education," notes Sheffu.

Matikinca reiterates that the decline in donor funding, along with the fact that a lot still needs to be done in the way of improving the country's tax collection system, is problematic. "Fiscal stability is further threatened by the accumulation of arrears from contractors, the pension fund and general weakness in budget formation," she says. These factors add to concerns about Tanzania's ability to repay its external debt.

Despite obvious challenges and an urgent need to remedy poor policy and weak systems, Sheffu believes that Tanzania will be able to maintain its positive growth outlook if Magufuli's government adopts appropriate macroeconomic policies and measures that will improve provision of public services and attract foreign and local investments in an effort to improve on key infrastructure.

Ongoing investment in gas production and power generation, strong urban migrations and improving regional trade will all contribute to a constructive long-term outlook for growth, says Matikinca. Magufuli already committed to these issues. In his inaugural speech, Magufuli specifically mentioned that "key quick wins will be to ensure the construction of major LNG [liquefied natural gas] commences during the year. This alone would bring over $20bn worth of FDI [foreign direct investment] to Tanzania during its implementation phase. Magufuli is also pro-private sector, thus it is anticipated that the private sector will grow exponentially during his tenure," comments Sheffu.

Some of the biggest growth constraints that may prove hurdles in the Magufuli race to win back Tanzania remain unreliable electricity, poor road, rail and port infrastructure, inadequate skilled labour and regulatory bottlenecks.

One of the major initiatives included in the government's infrastructure drive is the improvement of its port facilities. Kenya currently has the largest port in the region, but it is running over capacity, says Matikinca. "The large investments made into improving ports in Tanzania will definitely help with eradicating inefficiencies and reducing port costs."

Developing Tanzania as a port of call in the region makes logistical sense, according to Sheffu, "If Rwanda or DRC import via Tanzania as opposed to Mombasa [Kenya], they will save 1000+ km". The Tanzanian government has also signed a memorandum with China to build a new port in Bagamoyo, with the goal of making it one of the most important ports on the continent by 2017. The vast and immediate investment is most certainly a preamble for Tanzania to up its game and make it an effective competitor for Kenya, says Sheffu.

Opportunites for SA Inc.

So what should South African business make of the untapped gem that is Tanzania?

Nungwi Beach, Zanzibar

travelzanzibar

ZANZIBAR

Tanzania's mainland general elections went well, but the semi-autonomous islands of Zanzibar remain in limbo due to irregularities that prompted the nullification of their elections – Zanzibar elects a president who is head of government for matters internal to Zanzibar.

Al Jazeera reported that "the annulment came after a key candidate, Seif Sharif Hamad of the opposition Civic United Front (CUF), declared himself the winner before the results were officially announced. Hamad and incumbent President Ali Mohamed Shein from the ruling party Chama Cha Mapinduzi (CCM) have met at least twice in a bid to resolve the crisis."

In January, the *Daily News* reported that Zanzibar's first vice president Seif Sharif Hamad – who is also general-secretary of the opposition Civic United Front (CUF) – has confidence in Magufuli's commitment to resolving the political woes in Zanzibar: "Dr Magufuli has indicated that he has the will to resolve the political situation in Zanzibar and I have a lot of trust in him," said Hamad.

This statement is encouraging; the support that Magufuli has drawn from even opposition parties adds to current expectations of Tanzania's political landscape remaining stable. However, Magufuli needs to address the election challenges in Zanzibar to ensure this, warns Sheffu.

According to Sheffu, there are several South African companies currently operating in the country, ranging from mining, services to mining, to FMCG (fast-moving consumer goods).

Although most of the major construction activities are dominated by China, SA's larger high-quality construction companies can tap into this sector.

Income levels are rising amongst Tanzanians, so consumer products are a good bet. High-class and low-cost real estate partnership with the major pension funds may also prove attractive to South African investors, says Sheffu.

In September 2014, the Tanzanian government relaxed rules regarding foreign investors and they are now allowed to own more than the previous 60% limit of shares in a locally-listed firm. Sheffu says that this opening of the capital is highly encouraging for foreign investors and developed a lot of interest, which is evidenced in several private equity firms taking equity interest in local companies.

This generation of opportunity will "expose emerging Tanzanian home-grown entities to private investors. We expect the local capital market to be vibrant in the near future once more and more foreign investors will become actively involved in the market."

Sheffu adds that regulatory bottlenecks have been a major challenge to doing business in Tanzania but this is expected to change as Magufuli has restored the public services charter, which would oblige public officials to act and resolve issues within a stipulated timeframe and holds them accountable for their actions or inactions.

Magufuli has his work cut out for him. But it seems Tanzania's president is aware of what he is up against and is resolute in getting the country on track.

"In just 60 days of his taking office, Magufuli has been an inspiration not only to Africa but also the world. With sound policies, a great team, integrity and well-executed strategy, he would surely be able to rouse Africa's sleeping giant," says Sheffu. ■

editorial@finweek.co.za

Image: Getty Images/ Mat Szwajkos

WORDS FOR INVESTORS TO LIVE BY

With more than $4.6tr of assets under management, BlackRock is the world's largest asset manager and arguably one of the most influential investors. So when **Larry Fink, chairman and CEO,** speaks, people tend to listen.

Larry Fink
Chairman and CEO of BlackRock

Larry Fink, chairman and CEO of BlackRock, has long been urging companies to take a longer-term investment approach, which often falls by the wayside given the focus, particularly in the US, on quarterly performance. He is not the only one with concerns. The *Financial Times* reported that billionaire investor Warren Buffett and Jamie Dimon, CEO of JPMorgan Chase, have convened secret meetings with some of the world's largest asset managers – BlackRock, Fidelity, Vanguard and Capital Group – to draw up proposals for improving public company governance to encourage longer-term investment and reduce conflict with shareholders.

It is expected that it will take some months before the group finalises a list of best practices that they will support at the companies they invest in, the *Financial Times* said. In the interim, Fink sent the following letter to more than 500 companies on 1 February (as published by *Business Insider*):

Getty Images/iStock Images

Over the past several years, I have written to the CEOs of leading companies urging resistance to the powerful forces of short-termism afflicting corporate behavior. Reducing these pressures and working instead to invest in long-term growth remains an issue of paramount importance for BlackRock's clients, most of whom are saving for retirement and other long-term goals, as well as for the entire global economy.

While we've heard strong support from corporate leaders for taking such a long-term view, many companies continue to engage in practices that may undermine their ability to invest for the future. Dividends paid out by S&P 500 companies in 2015 amounted to the highest proportion of their earnings since 2009. As of the end of the third quarter of 2015, buybacks were up 27% over 12 months. We certainly support returning excess cash to shareholders, but not at the expense of value-creating investment. We continue to urge companies to adopt balanced capital plans, appropriate for their respective industries, which support strategies for long-term growth.

We also believe that companies have an obligation to be open and transparent about their growth plans so that shareholders can evaluate them and companies' progress in executing those plans.

We are asking that every CEO lay out for shareholders each year a strategic framework for long-term value creation. Additionally, because boards have a critical role to play in strategic planning, we believe CEOs should explicitly affirm that their boards have reviewed those plans. BlackRock's corporate governance team, in their engagement with companies, will be looking for this framework and board review.

Dividends paid out by S&P 500 companies in 2015 amounted to the highest proportion of their earnings since 2009. As of the end of the third quarter of 2015, buybacks were up

27%

over 12 months.

THE VISION FOR THE FUTURE

Annual shareholder letters and other communications to shareholders are too often backwards-looking and don't do enough to articulate management's vision and plans for the future. This perspective on the future, however, is what investors and all stakeholders truly need, including, for example, how the company is navigating the competitive landscape, how it is innovating, how it is adapting to technological disruption or geopolitical events, where it is investing and how it is developing its talent. As part of this effort, companies should work to develop financial metrics, suitable for each company and industry, that support a framework for long-term growth. Components of long-term compensation should be linked to these metrics.

We recognise that companies operate in fluid environments and face a challenging mix of external dynamics. Given the right context, long-term shareholders will understand, and even expect, that you will need to pivot in response to the changing environments you are navigating. But one reason for investors' short-term horizons is that companies have not sufficiently educated them about the ecosystems they are operating in, what their competitive threats are and how technology and other innovations are impacting their businesses.

Warren Buffett
Billionaire investor and philanthropist

Jamie Dimon
CEO of JPMorgan Chase

Without clearly articulated plans, companies risk losing the faith of long-term investors. Companies also expose themselves to the pressures of investors focused on maximising near-term profit at the expense of long-term value. Indeed, some short-term investors (and analysts) offer more compelling visions for companies than the companies themselves, allowing these perspectives to fill the void and build support for potentially destabilising actions.

Those activists who focus on long-term value creation sometimes do offer better strategies than management. In those cases, BlackRock's corporate governance team will support activist plans. During the 2015 proxy season, in the 18 largest US proxy contests (as measured by market cap), BlackRock voted with activists 39% of the time.

STAY FOCUSED...

Nonetheless, we believe that companies are usually better served when ideas for value creation are part of an overall framework developed and driven by the company, rather than forced upon them in a proxy fight. With a better understanding of your long-term strategy, the process by which it is determined, and the external factors affecting your business, shareholders can put your annual financial results in the proper context.

Over time, as companies do a better job laying out their long-term growth frameworks, the need diminishes for quarterly earnings per share (EPS) guidance, and we would urge companies to move away from providing it. Today's culture of quarterly earnings hysteria is totally contrary to the long-term approach we need. To be clear, we do believe companies should still report quarterly results – "long-termism" should not be a substitute for transparency – but CEOs should be more focused in these reports

on demonstrating progress against their strategic plans than a one-penny deviation from their EPS targets or analyst consensus estimates.

With clearly communicated and understood long-term plans in place, quarterly earnings reports would be transformed from an instrument of incessant short-termism into a building block of long-term behaviour. They would serve as a useful "electrocardiogram" for companies, providing information on how companies are performing against the "baseline EKG" of their long-term plan for value creation.

We also are proposing that companies explicitly affirm to shareholders that their boards have reviewed their strategic plans. This review should be a rigorous process that provides the board the necessary context and allows for a robust debate. Boards have an obligation to review, understand, discuss and challenge a company's strategy.

...BUT CONSIDER THE BIGGER PICTURE AS WELL

Generating sustainable returns over time requires a sharper focus not only on governance, but also on environmental and social factors facing companies today. These issues offer both risks and opportunities, but for too long, companies have not considered them core to their business – even when the world's political leaders are increasingly focused on them, as demonstrated by the Paris Climate Accord. Over the long-term, environmental, social and governance (ESG) issues – ranging from climate change to diversity to board effectiveness – have real and quantifiable financial impacts.

At companies where ESG issues are handled well, they are often a signal of operational excellence. BlackRock has been undertaking a multi-year effort to integrate ESG considerations into our investment processes, and we expect companies to have strategies to manage these issues. Recent action from the US Department of Labor makes clear that pension fund fiduciaries can include ESG factors in their decision-making as well. We recognise that the culture of short-term results is not something that can be solved by CEOs and their boards alone. Investors, the media and public officials all have a role to play. In Washington (and other capitals), long-term is often defined as simply the next election cycle, an attitude that is eroding the economic foundations of our country.

Public officials must adopt policies that will support long-term value creation. Companies, for their part, must recognise that while advocating for more infrastructure or comprehensive tax reform may not bear fruit in the next quarter or two, the absence of effective long-term policies in these areas undermines the economic ecosystem in which companies function – and with it, their chances for long-term growth.

With a better understanding of your long-term strategy, the process by which it is determined, and the external factors affecting your business, shareholders can put your annual financial results in the proper context.

We note two areas, in particular, where policymakers taking a longer-term perspective could help support the growth of companies and the entire economy:

First, tax policy too often lacks proper incentives for long-term behaviour. With capital gains, for example, one year shouldn't qualify as a long-term holding period. As I wrote last year, we need a capital gains regime that rewards long-term investment – with long-term treatment only after three years, and a decreasing tax rate for each year of ownership beyond that (potentially dropping to zero after 10 years).

Second, chronic underinvestment in infrastructure in the US – from roads to sewers to the power grid – will not only cost businesses and consumers $1.8tr over the next five years, but clearly represents a threat to the ability of companies to grow. At a time of massive global inequality, investment in infrastructure – and all its benefits, including job creation – is also critical for growth in most emerging markets around the world. Companies and investors must advocate for action to fill the gaping chasm between our massive infrastructure needs and squeezed government funding, including strategies for developing private-sector financing mechanisms.

GROWING FORWARD

Over the past few years, we've seen more and more discussion around how to foster a long-term mindset. While these discussions are encouraging, we will only achieve our goal by changing practices and policies, and CEOs of America's leading companies have a vital role to play in that debate.

Corporate leaders have historically been a source of optimism about the future of our economy. At a time when there is so much anxiety and uncertainty in the capital markets, in our political discourse and across our society more broadly, it is critical that investors in particular hear a forward-looking vision about your own company's prospects and the public policy you need to achieve consistent, sustainable growth. The solutions to these challenges are in our hands, and I ask that you join me in helping to answer them. ■

editorial@finweek.co.za

Larry Fink is the chairman and CEO of BlackRock, the world's largest asset manager by assets under management. He co-founded BlackRock in 1988 after a successful career at First Boston, where he played an instrumental role in the creation and development of the mortgage-backed security market in the US.

on the money

THIS WEEK:

CEO INTERVIEW **By Marcia Klein**

A hunger for success

finweek caught up with Grand Parade Investments chairman, Hassan Adams, to find out how the rollout of its Burger King franchises is going and what his plans are for the future of this holding company.

Grand Parade Investments (GPI) chairman Hassan Adams has kept an edition of *finweek* from over eight years ago in which he was photoshopped into wrestling gear to reflect his combative mood as he fought off Cape Empowerment Trust's Shaun Rai for control of his company.

The takeover battle is a distant memory and there is no evident threat looming, but he has retained his feistiness. He hardly allows a word in as he chats effusively about his company and his recent agreement to bring two American franchises to South Africa.

His focus now, as he sits in GPI's boardroom above the site of SA's first Burger King on Heerengracht Street in Cape Town, is on his growing list of international franchises and GPI's intensified focus on its food operations.

Adams has signed a master franchise agreement with Dunkin' Brands for the development of more than 250 Dunkin' Donuts restaurants and more than 70 Baskin-Robbins shops in SA. GPI will also get Baskin-Robbins ice cream products into supermarkets and convenience stores. Dunkin' Donuts, a coffee and bakery company, has more than 11 500 stores in 40 countries. Baskin-Robbins, which sells ice cream, has 7 600 locations in nearly 50 countries.

As it has done with Burger King, GPI will use profit from gaming investments to fund the expansion of its food operations but the aim is to make food an increasingly important part of the group's business.

On Burger King

GPI, formed in 1997 as a BEE investment holding company, owns 25.1% of Sunwest (GrandWest Casino and The Table Bay Hotel), and 25.1% of the Golden Valley Casino. It operates over 3 500 limited-payout machines at over 700 different locations in the Western Cape, Gauteng, KwaZulu-Natal and Mpumalanga. It owns MacBrothers Catering Equipment, 10% of Spur Corporation and 51% of Grand Tellumat Manufacturing.

It obtained the Burger King master franchise for SA in 2013 and will now add the Dunkin' Donuts and Baskin-Robbins master franchises.

The development of these brands comes at a cost. At the moment Burger King is something of a financial drain. Results for the year to June showed GPI spent R231.8m expanding Burger King in the 2015 financial year, bringing the total spent on the franchise to R411.8m. It had 44 stores by year-end.

SunWest contributed R116.7m to headline earnings on the back of significant profit from GrandWest, offset to some extent by losses at the Table Bay Hotel at the V&A Waterfront. GPI Slots contributed R101.7m, R92m of which was from discontinued operations. But Burger King's loss had widened to R55.1m, against a loss of R39.9m the year before.

CEO Alan Keet's focus has been redirected and he has been appointed, in Adams' words, as "head honcho of foods" as GPI changes tack a little from being an investment company to one with increased operational involvement in its food businesses, "given that the food business is where the activity is".

Adams says everyone questioned the Burger King investment, saying the market is saturated, "but there will be 100 in three years, and McDonald's took 20 years to build 200".

But at the Burger King downstairs, people are no longer queuing around the corner to get in, as when it first opened, and expansion has been slower than expected.

The expansion is, however, steady and supported by

Images supplied

HASSAN ADAMS ON HIS MANAGEMENT STYLE

■ **"Grand Parade is a journey, and we reach certain destinations and the journey continues, from one greatness or failure to another – and fixing it up along the way."**

■ **"You can't be in business without making mistakes," he says. He warns against becoming arrogant. "The biggest thing you lose is your humility."**

■ **"This may not be the strategy the sophisticated investor will readily understand, but we are growing in a way that we can afford to do."**

■ **"We are about creating employability, we provide career-driven jobs. Everyone must have the opportunity to improve themselves – we want them to be there tomorrow too."**

Hassan Adams
Chairman of GPI

Doughnuts are displayed for sale at a Dunkin' Donuts store.

Gallo Images/Getty Images

what appears to be a sustainable funding model. Annuity income from largely passive gaming investments underpins the dividend to shareholders and helps fund expansion of food businesses, which Adams believes are the source of its future growth.

Moving further into the food sector

GPI was, however, quite willing to get rid of its gaming investments when it was part of a deal, scuppered by the Competition Commission, to sell its stakes in its casinos to Tsogo Sun.

"We weren't looking to sell GrandWest, but we were approached, and we eventually got a price we would have been silly not to accept, but it was thrown out," Adams says.

While it retains its casinos and slots, and is investing in gaming technology, the group will be investing "where there is blue-sky opportunity", and Adams believes "the J curve is changing", as Burger King should be self-funding by June, after which its profits should flow. GPI owns all the Burger King stores, a strategy which came at huge cost, but enables it "to entrench quality of product and excellence of service. The profit will be more than what the casino/gaming sides can yield."

The share price, at R3.74, has lost 38% in a year, which could indicate that GPI's strategy is either not clear, or its direction not finding favour with investors.

Adams believes he has made some communication mistakes as the shareholding base changed over the years from largely community shareholders to include institutional investors and traders.

Net asset value, he says, is higher than where the share price is trading. "The sum of the parts is just under R8."

Adams has signed a master franchise agreement with Dunkin' Brands for the development of more than 250 Dunkin' Donuts restaurants and more than 70 Baskin-Robbins shops in SA.

He believes the market needs to understand the strategy. The casino business comes off a high base, so one cannot expect it to regain its previous levels, although it is benefitting from increased "middle-income spending". He adds: "We are not looking for more bricks-and-mortar gambling, and we are quietly getting ready for online gaming."

But the real growth will come from food. Apart from its stores, GPI also sees opportunities to export. For example, it makes its own patties for Burger King and is looking at supplying other countries with food and equipment.

He will not be drawn on whether other deals are in the pipeline. "As for the next step, I cannot tell you about it, but we are looking at food and beverage. We want to grow it into a company that could be on the stock market on its own. Gaming washes its own face, it is a happy environment to be in and casino and slots do very well.

"We have introduced a policy in the food division where it will only invest in premium brands," he says, indicating that there are perhaps other big brand agreements to come.

He is eager to get into online gaming but legislation prevents it, and he is visibly irritated by the fact that punters bet across borders, but SA plays no role.

He remains committed to GPI's original shareholders, who are largely community members who have invested since GPI's beginnings when they paid 17.5c a share.

"More than 50% have not dematerialised their shares. They are community people who believe in the company. We give a dividend to them and that's their annuity income, we have created more than 5 000 millionaires." ■

editorial@finweek.co.za

By Jessica Hubbard

Gallo Getty/iStock

Is Africa the final frontier for panicked digital advertisers?

The ever-increasing popularity of ad-blocking software is causing a headache for digital advertisers. But research has shown that, in contrast to the rest of the world, many Africans do not view ads in a negative light, which may offer an opportunity to online advertisers.

In an age of rapidly shortening attention spans, combined with ever-widening choices of online media and entertainment, it is no surprise that digital publishers and advertisers are struggling to gain a foothold. For even the most well-recognised and high-profile online news sites, for example, finding a sustainable revenue model has – in most cases – proved elusive.

Digital media consumers, and particularly younger ones, are now accustomed to free content online, and either kick up a fuss or flatly refuse to pay a fee for any content (no matter how good the content... and how low the fee).

Moreover, booming social media networks such as Facebook and Twitter have become, for many online addicts, their first and only point of call for bite-sized chunks of news and information – making the 'traditional' websites seem even more clunky and irrelevant.

Worryingly for digital publishers, readers are now also cottoning on to ad-blocking software and tools – in a not-so-subtle move against annoying pop-ups and rudely flashing banner ads. Indeed, while ad-blocking software has in fact been around for many years, its increasing use among digital content consumers is triggering a panic among various digital players.

Massive adoption of ad-blockers

According to a study released in August last year by Adobe and PageFair (a company that develops ad-blocking software), there are now over 198m 'active' ad-block users around the world. The PageFair report also claimed that ad-blocking cost publishers a whopping $22bn last year, with ad-blocking skyrocketing by 41% globally. Unsurprisingly, ad-blocking is most widely used by young 'digital natives' – the very segment that most advertisers are desperate to connect with.

There are now over
198m
'active' ad-block users around the world.

To add to publishers' woes, Apple Inc. included a tool in its latest mobile operating system, iOS 9, that enables users to block adverts on iPhones and iPads when using the Safari web browser. The move brought a great deal of media attention to the practice of ad-blocking, triggering a newfound awareness amongst online media consumers. And as more and more people start to access the bulk of their news and entertainment from mobile devices, it is likely that such tools – and their adoption – will become more commonplace for mobile users.

The PageFair research team indicated as much following the publishing of their report in August, noting: "We find that not only has ad-blocking continued its fast growth on desktop, but it has also leaped onto mobile in Asia, and will soon go mobile in the West with the [upcoming] launch of content blocking on iOS ... Since our last report, the existential threat of ad-blocking has become a pressing issue in the boardrooms of publishers across the world. A concerted response is required, founded upon a renewed focus on user experience..."

Yaron Assabi
Chairman of the Mobile Marketing Association and founder of Digital Solutions Group

While ad-blocking software has in fact been around for many years, its increasing use among digital content consumers is triggering a panic among various digital players.

Their predictions have since been proven rather accurate: Ad-blocking became almost as popular on mobile devices as on desktops and laptops at the end of last year. This is according to GlobalWebIndex, which released data from the last three months of 2015 showing a rise in people reporting they had used an ad-blocker on mobile devices within the last month.

[T]he GlobalWebIndex data indicates that almost a quarter of mobile users in Europe and almost **30%** in the US are taking to the practice [of ad-blocking].

Analysts caution that these findings are slightly skewed by the popularity of ad-blocking in Asia, where it has been common for several years. That said, the GlobalWebIndex data indicates that almost a quarter of mobile users in Europe and almost 30% in the US are taking to the practice.

So what's at stake?

Arthur Goldstuck, MD of local technology consultancy World Wide Worx, places the issue in context for outsiders: "Ad-blocking is a double-edged sword. On the one hand, it robs digital media of their ability to generate revenue from readership, and hence reduces their viability to offer content at no cost. On the other hand, it protects readers from what is viewed as obtrusive, invasive and unwanted interruptions of their reading. Of course, there needs to be a middle path, and it won't be achieved merely by blocking viewers who use ad-blockers and not doing something about the way advertising is displayed."

Arthur Goldstuck
MD of World Wide Worx

Goldstuck also points out that there are, in fact, a number of tools and techniques (such as barring browsers that use ad-blockers) to fight the trend.

"The double-edged sword is that, while 'free' viewing may be locked, it could also affect readership numbers and therefore ad rates," he adds.

But according to Goldstuck, what many have dubbed the 'ad-blockalypse' is a non-starter in South Africa at this point.

"Most South Africans are unaware that ad-blocking tools even exist, and would rather tolerate the annoyance of ads than go to the trouble of finding and installing special [ad-blocking] software..."

Goldstuck also argues that SA's digital publishers are far behind their US and European counterparts, and are in fact still grappling with the basics of creating 'readable and usable' – not to mention profitable – websites.

"Globally, online publications are in continual flux, and even those that are heavily read are in a state of confusion," he adds. "They are trying to balance quality with attracting maximum traffic, which often results in ugly websites dominated by click bait. Essentially, online media is going through a crisis of credibility..."

A uniquely African 'opportunity'?

Yaron Assabi, chairman of the Mobile Marketing Association and founder of Digital Solutions Group, has an interesting take on the debate. He insists that unlike their US and European counterparts, African digital media consumers are unperturbed by most advertising – and in fact – many readers find ads to be relevant and useful. In his view, as a mobile-first market, and with a fast-growing audience that is still finding its way on the internet, advertising is not the evil and exploitative force that most other markets view it as.

"Most African consumers don't find [digital advertising] irritating – on the contrary – it helps them find things that are relevant to their daily lives and experiences," notes Assabi. He adds that he has come across many "inspiring and innovative" mobile ad campaigns and mobile ad solutions, which have demonstrated not only how valuable mobile reach is, but how advertising – when done right – can add value for all the stakeholders.

Interestingly, Assabi believes that the booming African mobile market is offering up an ideal opportunity for mobile advertisers, ad networks and marketers to explore and experiment with different ways of reaching consumers... and particularly audiences who have yet to develop a psychological barrier or resistance to ad messages.

"Bearing that in mind, we need to be very conscious of people's needs and create smart, relevant and responsible advertising solutions," he explains.

This will necessarily include developing solutions that avoid consuming too much data and slowing the download of primary content.

"In ad-funded or supported models for products and services, Mobile Network Operators and publishers could choose to 'O' rate the data for advertising – so there is no consumer concern with data costs," he suggests. ■

editorial@finweek.co.za

By Lameez Omarjee

Family flooring business sets up for a sustainable future

Founded in 1948, Van Dyck Carpets is South Africa's oldest carpet brand. CEO Mehran Zarrebini shares how it became part of the family business, and their growth plans for the future.

Consumer confidence may be at its lowest level in 14 years due to a tough economic climate, but flooring company Van Dyck Carpets is full of plans to grow its market share locally and build its international footprint.

Bought by PFE International, Van Dyck has seen its market share grow from 20% in 2004 to about 33% for all flooring products. Van Dyck, a family-owned business with decades of experience in the carpeting business, and also South Africa's oldest carpeting brand, grew revenue 20% between 2013 and 2015.

This success can mainly be attributed to the strength of the family business, which values long-term resilience over short-term performance in its decision-making, says CEO Dr Mehran Zarrebini.

South Africa's oldest carpeting brand has seen its market share grow from 20%in 2004 to about

33%

for all flooring products.

He joined the family business after graduating with a PhD in chemical engineering from the University of Cambridge in 2001, at the age of 26.

Zarrebini's grandfather and other family members were always involved in the sale and distribution of handmade Persian carpets in Iran. His father obtained his PhD in textile engineering in the 1970s and proceeded to start the family's first carpet factory in 1975 in Iran. This operation is still running today, as a family-owned business, Zarrebini says.

Today, PFE International manufactures raw materials for the flooring industry across the world. The group also includes PFE Extrusion and tyre recyclers, Mathe Group. PFE International's first investment in SA was in a joint venture with textile group Ninian & Lester in 1995, at the "dawn of democracy", as Zarrebini describes it.

GETTING TO KNOW ZARREBINI

WHAT HE'S CURRENTLY READING:

- *Blue Ocean Strategy*, by W. Chan Kim and Renée Mauborgne.
- *Network advantage: How to unlock value from your alliances and partnerships*, by Henrich Greve, Tim Rowley and Andrew Shipilov.

FAVOURITE BUSINESS LEADERS:

- Elon Musk. "He's done amazing things in terms of disruption with companies such as PayPal, SpaceX and Tesla," says Zarrebini.
- Marissa Mayer, who was appointed CEO of Yahoo at the age of 37, making her the youngest CEO of a Fortune500 company.

FAVOURITE PLACES TO TRAVEL:

Europe and Brazil

FAVOURITE PLACE TO LIVE:

South Africa

Mehran Zarrebini
CEO of Van Dyck Carpets

In 2004, PFE International acquired Van Dyck from its Belgian parent company Domo Carpets. Van Dyck, which was established in 1948, was the "perfect fit" for PFE International, says Zarrebini. "We realised there was an opportunity for us to secure our stake as raw material manufacturers in SA," Zarrebini tells *finweek*. Besides carpeting, the group manufactures a variety of flooring products, including textiles, for commercial and residential purposes.

The move to SA was part of a strategy to relocate its manufacturing operation from the UK to Hammarsdale in KwaZulu-Natal. One of the principle attractions at the time was the relatively inexpensive cost of utilities and labour. Compared to other developing countries, SA's infrastructure has always been highly developed, especially the financial and logistical industries, says Zarrebini.

Managing a family business

The ownership structure of a family business gives it a long-term orientation for success, which other companies often lack, says Zarrebini. "We tend to look at a longer horizon to ensure our future generations can sustain our business."

This means being frugal, in good times and in bad. When it comes to expanding, it's important to be judicious with capital. For this reason, "strong" projects with high potential returns on investment are favoured. "This may be a good thing or a bad thing and may result in missing out on some opportunities in the short term," he says. Overall, it minimises risk exposure over the long-term.

PFE International also favours joint ventures and strategic alliances with flooring experts in their respective countries, says Zarrebini. This is beneficial in leveraging off the skills of others, while focusing on the group's core strength, which is manufacturing. A recent example is its venture with Belgium-based group Pergo, which specialises in laminate and hardwood flooring, which was announced in September 2015. The deal makes Van Dyck the sole distributor of Pergo flooring products in the Southern African Development Community (SADC) region.

Employee retention is also a priority, not only for retaining skills and knowledge, but also because it helps to develop a strong culture within the organisation, says Zarrebini. The group has close to 700 employees in SA.

Having worked in diverse environments and being exposed to different cultures in countries like Iran, England, Portugal and Brazil (where his wife is from) Zarrebini says his experiences have helped him adapt to doing business in SA.

Zarrebini has also had a hand at a number of start-ups, which has made him "comfortable" with switching roles in different circumstances and tackling challenges. "Being involved in a number of start-ups requires a sort of 'roll-up-your-sleeves' mentality," he says.

His skills and knowledge as a chemical engineer have also been beneficial in the manufacturing industry. "I think the background also helped me gain quick enough understanding of the types of processes that are involved in manufacturing flooring," he says.

Investing in sustainability

One of PFE International's recent investments has been in Mathe Group, an environmentally sustainable company that manufactures rubber crumb from used tyres. The operation is in association with tyre-recycling organisation, Redisa. These products are used by Van Dyck in manufacturing acoustic underlays and cradles and there is also a market for rubber crumb as infill in the sports industry (e.g. in athletic tracks). The largest export market for recycled rubber products is the USA and UK.

> This success can mainly be attributed to the strength of the family business, which values long-term resilience over short-term performance in its decision-making.

"Recycling waste tyres will create the opportunity to innovate further and develop more downstream opportunities which may or may not have been untouched especially in SA," adds Zarrebini.

Zarrebini believes sustainability and maintaining green standards should be central to business. Although there are a number of challenges for companies to comply with these demands, there is also an opportunity to turn them into a competitive advantage. There is a misconception that expanding or developing products that incorporate green attributes is more expensive, he says.

"I find our environmental initiatives have actually lowered costs in the long term. I see them as an investment opportunity rather than a threat," Zarrebini says. Investment in sustainability has been accompanied with greater efficiency and productivity, he says.

In May 2015, Van Dyck was awarded the Carbon Trust Standard certification, which recognises organisations that take a best practice approach to measuring and managing their greenhouse gas emissions and achieve real reductions in these on a year-on-year basis. Van Dyck, which has reduced emissions by 28% over a two-year period, is the first organisation in Africa to achieve this standard. A further reduction of 10% is expected within the next year, Zarrebini says.

The group will continue to invest in its existing companies, and prioritise upstream raw material production to reduce its dependency on imports, he says.

LESSONS LEARNT

■ DEVELOP AN ABILITY TO LISTEN
"This is extremely important when it comes to managing people."

■ BE HUMBLE
"Create spaces and opportunities for others to contribute, especially when you're working with employees from different demographic backgrounds."

■ ALWAYS BE OPEN TO LEARNING
"Never assume you are fully-qualified to do a job. Also, collaborate with your customers and learn from their feedback in terms of improving products."

Growing market share

Van Dyck currently sells to 20 countries, with exports making up about 15% of total sales. Its main market is Australia, but it also ships to the USA, Germany, UK, South Korea, the United Arab Emirates and countries in Southern Africa. Growing market share requires having a good understanding of customers and researching how they define value, says Zarrebini. "We've increased market share simultaneously through differentiation and low costs," he says.

PFE International will approach 2016 cautiously, but has opted to invest in a number of different projects to differentiate products and develop new market opportunities. "We're expecting a decline in some areas but also growth in new areas. It's going to be a mixture of both," says Zarrebini.

The group will focus on expanding and building its international presence. This will be achievable through the development and reinforcement of some existing and many new partnerships, explains Zarrebini.

The group will also commit to continued development of sustainable products manufactured, which will contain a high percentage of recycled content. "We'd like to consider design for an environment with minimisation of resources. Environmental initiatives are certainly a force," he says. ■

editorial@finweek.co.za

By Frik Landman

Empires of the mind

CEO of USB Executive Development, Frik Landman, writes about developing a managerial mind and how this will work towards creating leaders in Africa.

Winston Churchill once said: "The empires of the future are the empires of the mind."

Just by observing the rise of the knowledge worker and the battle for talent, Churchill's comment intuitively resonates with me. For the moment, I won't focus on the physicality of the brain. My interest, rather, lies in how we can responsibly cultivate this piece of problem-solving 'equipment', not merely to respond creatively to the condition of life for our own sake, but more especially so as to contribute to a better and more peaceful world for all. For now I wish to focus on the development of leadership minds in Africa. Consider for a moment the fact that we have the richest continent on the globe, given our natural resources, land mass, young population, etc.

Now juxtapose all these wonderful assets with the state of our sociopolitical arena: our unsatisfactory rate of turning our resources into wealth for all, the mediocre quality of our institutional life, the poor quality of governance, etc. The leadership behaviours that engineered some of these unattractive results are clearly not governed by the kinds of minds and mindsets we need to design and sculpt our future.

Frik Landman
CEO of USB
Executive Development

The challenge of keeping up

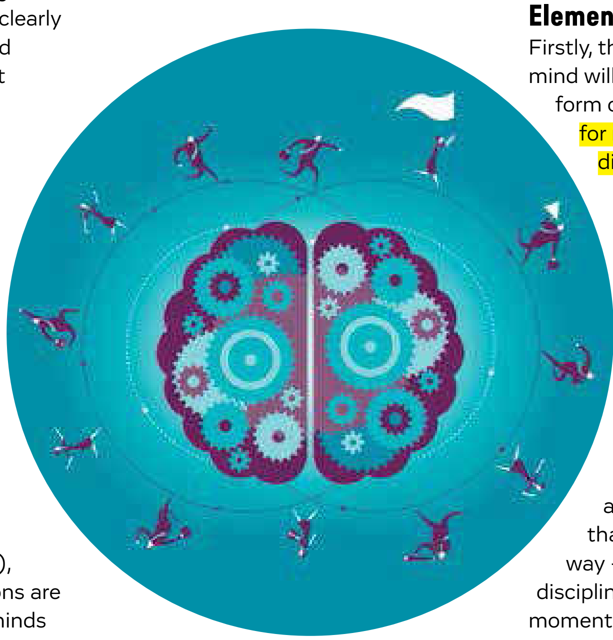
Consider the role of the empires of the mind when writer, professor and management consultant, Peter Drucker, states:

"No century in recorded history has experienced so many social transformations and such radical ones as the twentieth century. They, I submit, may turn out to be the most significant events of this, our century, and its lasting legacy."

With the world therefore becoming all the more VUCA (short for volatility, uncertainty, complexity and ambiguity), the leader-managers in our organisations are under pressure to keep shaping their minds to keep their paradigms porous. How can we assist these leaders in discharging their leadership duties in the most responsible and sustainable way?

Henry Mintzberg, management development guru, acknowledges this challenge and suggests a way forward when he describes management as "a complex and challenging practice where art, science and craft meet". In response to this insight, and in an effort to influence and shape the empire of the mind, Jonathan Gosling and Henry Mintzberg developed an international programme focusing on five different managerial mindsets, namely the *reflective* mindset, the *analytical* mindset, the *worldly* mindset, the *collaborative* mindset, and the *action* mindset.

Taking a page from Gosling and Mintzberg, let's also note some substantive research done by Howard Gardner, captured in his book *Five Minds for the Future* and appreciate what practical value it has for those who take the development of their minds seriously.



Elements of the empire

Firstly, the development of the managerial mind will go nowhere in the absence of the first form of thought – *discipline*. It is imperative for managers to be able to think in a distinctive way, which in turn is a result of proper dedicated development and experience; the mastering of the things that make up the central theme of their profession as leader-managers. This surpasses having theoretical knowledge of management and leadership or even knowing "… seven steps to …". Allow me to give an example: You may be able to play me a tune on a guitar, but this does not make you a guitarist. If you can communicate that you are a guitarist in only one way – playing one tune – very little of the discipline under discussion is at work. The moment you have mastered the guitar, you will

Getty Images/ iStock Images

The leader-managers in our organisations are under pressure to keep shaping their minds… How can we assist these leaders in discharging their leadership duties in the most responsible and sustainable way?

be able to play any tune, and you will be able to communicate the essence of your guitarist profession in different ways and in different modes. You will be able to create novel sounds, use various techniques, tell stories with your instrument, play before an audience, etc. So it is with the disciplined managerial mind.

Our complex world actually requires more than that which Gosling and Mintzberg offer regarding the *analytical* mind. It needs a complementary form of thought that Gardner names the *synthesising* mind. Analysis has been a dominant form of thought in the Western world for centuries – the notion being that if we take anything apart and understand its parts, we understand the whole. This 'ain't gonna work' in a VUCA world, which demands a systemic view of things. It requires not only knowing how a system works, but why it works and why it produces the results that it does.

The relationships between the parts demand understanding. Russell Ackoff states: "The performance of the whole is never the performance of the parts taken separately, but is the product of the interactions, and therefore the main managerial idea introduced by systems thinking is that to manage a system successfully you must focus on the interactions of the parts rather than their behaviour taken separately."

Many times we observe effective leaders synthesising by telling stories, or using metaphors of all kinds.

A third form of thought is to have the ability to express your discipline in more than one way. Consider Gardner's *creative* mind: The nature of the challenges our leaders face can never be tackled by the stock or standard thinking and methodologies of the past. Elisabeth Dostal, for instance, points out: "[T]he logic of the problem is not the logic of the solution." The creative mind emerges where Mintzberg's assertion (where art, science and craft meet) happens. In this part of the *empire* there is dissatisfaction with how things are done, and the *creative* mind artfully crafts the same scene with a different medium and presents it in a new form in the hope for continuous progress. Such a mind is as disciplined and dedicated as that of a master artist.

Peter Drucker
Professor and management consultant

Henry Mintzberg
Management development guru

This book discusses the specific cognitive abilities that will be sought and cultivated by leaders in the coming years.

I think that relationships resemble a continuous battle between cathexis (the bringing down of the walls of my identity and allowing the flowing in of another identity almost to the point of losing my own) and xenophobia (where the walls of my identity are so strong and impenetrable that they allow me to think and act as if others don't have the right to exist, and that only I and my own have that right).

This is where Gardner's fourth form of thought resonates: the *respectful* mind. There is a case for us to discipline our minds and to acknowledge that others in their 'otherness', in their differentness, are not less than me and my own. To develop the *empire of our mind,* we seriously have to expose our minds to experiencing different forms of diversity in order to embrace the *fact* that being different is not equal to being flawed. This cuts far deeper than race and gender.

Peter Koestenbaum describes ethics as "being of service to others". For this to happen, Gardner formulates the fifth form of thought needed for the future, the *ethical* mind. The manager with an ethically-cultivated mind accepts excellence in work as a logical consequence of being of service to others. This completes the loop with the first form of thought, namely *discipline,* which is largely the motivation behind the *ethical* mind.

The development of the *empire* is a continuous imperative for those choosing to lead. ■

editorial@finweek.co.za

Frik Landman is the CEO of USB Executive Development (USB-ED). He is passionate about developing leaders who can make a meaningful contribution to the greater African community. His sentiments echo USB-ED's 2020 Vision: to develop managers who lead with wisdom and courage.

By *finweek* team

Five skills every SA manager needs

The South African business environment is vastly different from many of its counterparts. *finweek* takes a closer look at the skills you need (and won't learn from American business books) to be a successful manager in SA.

Managing profits and people in South Africa can be tricky. Few of the world's top management gurus will have ready advice on how to thrive in such a volatile and complicated business environment.

Managers have to deal with a unique combination of frequent currency crashes, a shaky economy, the constant threat of violent crime, developed-world regulatory demands in an emerging market, an uncertain electricity supply, skills shortages and a number of other 'special' quirks. Meanwhile, back in the office, tensions are simmering. A long legacy of racial prejudice and a gaping wealth gap, combined with the most culturally diverse workplaces in the world, offer plenty of opportunity for miscommunication and offence.

How do you navigate all of this?

EMBRACE UBUNTU:

In the 1990s, there was a surge in interest about incorporating ubuntu in South African management thinking, says Prof. Geoff Goldman of the Department of Business Management at the University of Johannesburg. This has all but diminished in recent years. However, the business leader (and recently retired chairperson of Nedbank), Reuel Khoza, has been a constant voice in promoting ubuntu in corporate culture.

He is a believer in "attuned leadership", based on the ubuntu values of connectedness, compassion, empathy, integrity, humility and determination. Morris Mthombeni, a lecturer at the Gordon Institute of Business Science (Gibs), says that according to ubuntu scholars, a person with an abundance of ubuntu is the epitome of life, whereas a person who lacks ubuntu can be considered as living dead. "Hence, to be a living leader in an African context, the business leader needs to be attuned to their ubuntu."

The centuries-old concept of humanity ("I am what I am because of who we all are"), mutual respect and communality remains engrained in the South African psyche. And it can be argued that following the global financial crisis, companies around the world are accepting that the individualistic profit-centric way of doing business may not be sustainable. (Even Goldman Sachs recently admitted in a research report that "broader questions need to be asked about the efficacy of capitalism".)

"Ubuntu does not mean that people should not enrich themselves," Nelson Mandela once said. "The question therefore is: Are you going to do so in order to enable the community around you to be able to improve?" Many South African companies are already embracing this in their social responsibility projects, says Goldman, citing examples of companies rising above box-ticking in their real empowerment and support of entire communities.

Prof. Geoff Goldman
Department of Business Management at the University of Johannesburg

> **"To be a living leader in an African context, the business leader needs to be attuned to their ubuntu."**

Morris Mthombeni
Lecturer at the Gordon Institute of Business Science (Gibs)

However, the South African management style still tends towards the Western approach, which is individualistic, with accountability for decisions centred with the individual manager, says Goldman. In theory, the Japanese management style should be closer to what the South African manager should aim for: an emphasis on information flowing from the bottom to the top of the company, with those tasked with implementing decisions being actively involved in the shaping of policy.

Ubuntu recognises the worth of all people, and managers may find a communal approach to solving problems (by consulting all stakeholders and respecting their inputs), which may lead to inventive solutions and increased productivity.

CLEAR AND FREQUENT COMMUNICATION:

Unlike in Japanese companies, where communication can be cryptic given the homogenous labour force, South African managers need to be especially precise in getting their message across, says Goldman. Use clear language and don't try to sound smart.

CULTURAL SENSITIVITY:

Having a diverse team is a distinct advantage, given the rich range of perspectives as well as potential solutions and safeguards that different viewpoints can contribute.

However, differences can also create conflict and misunderstanding among your team members. To avoid this, learn as much as you can about each person's culture, and show appreciation and respect for different approaches. Avoid stereotyping and easy assumptions, and make sure that everyone on your team feels valued.

One frequent point of contention is a defining part of African culture: respect for elders. This goes against the current Western veneration of 22-year-olds in hoodies, and can lead to tension in workplaces. Be aware of your basic manners and pay attention to the dignity of others.

CREATIVE FAR-SIGHTEDNESS:

This is one of the most important skills required of a South African manager, reckons Goldman. "You need to be able to envision the domestic market's future needs, and how

Getty Images/ Cristian Baitg

> **“Given the unique challenges facing SA, we do not have a shortage of ideas, but seem to lack the will to implement the ideas.”**

your company can capitalise on these opportunities.” This is a particular challenge given the erratic nature of the local economy, and demands deep knowledge of your market and creative solutions to challenges.

HIGH RI AND OQ SCORES:

Critical leadership capabilities in SA are contingent on the understanding that we have to build a sustainable future on the foundation of irresponsible historical business practices, says Mthombeni.

To reverse the impact of these irresponsible practices, managers require relational intelligence (RI), as defined in academic studies as the sum of emotional intelligence and ethical intelligence. Emotional intelligence is the ability to identify and manage your own and other people’s emotions, while ethical intelligence consists of moral awareness, moral reflection and moral imagination.

This, however, is not enough. Managers in SA also require high levels of operational intelligence (OQ), according to Mthombeni. “Given the unique challenges facing SA, we do not have a shortage of ideas, but seem to lack the will to implement the ideas.” Operational intelligence requires strategic thinking supported by a planned approached to execution and development.

“Like many developing countries, the problems facing a business leader in South Africa are different from those faced by a business leader in a developed country,” says Mthombeni. “While we can learn from the leadership insights from developed countries, we need to emphasise leadership capabilities that are relevant to our context.” ■

editorial@finweek.co.za

on the money quiz & crossword

Congratulations to reader **Brandon Meyer,** who won a book prize in one of our recent competitions. Well done! Should you wish to complete this edition’s quiz online, it can be accessed via fin24.com/finweek on 15 February. Good luck!

1 **True or false?** The Friends of Jacob Zuma Trust has stated that it will help the president to pay back fees for Nkandla, if necessary.

2 Which Abu Dhabi-headquartered telecoms company is suing MTN in Nigeria?
- SmileTel
- Visafone
- Etisalat

3 Which prodigious sporting event took place in the US on Sunday, 7 February?

4 A former Prasa CEO has had allegations of corruption levelled against him, which he denies. Name him.

5 **True or false?** According to figures from the International Monetary Fund, India’s growth outpaced that of China in 2015.

6 In what month does this year’s Mining Indaba take place?

7 What is BlackBerry’s new phone – soon to launch in SA – called?
- Priv
- Awe
- Prism

8 Two coal miners were engaged in a bidding war for Universal Coal. Name one of them.

9 Who or what is Lesedi La Rona?
- A local singer
- A huge diamond found in Botswana
- A radio station

10 **True or false?** Nelson Mandela’s grandson Vusi recently remarried in a Muslim ceremony.

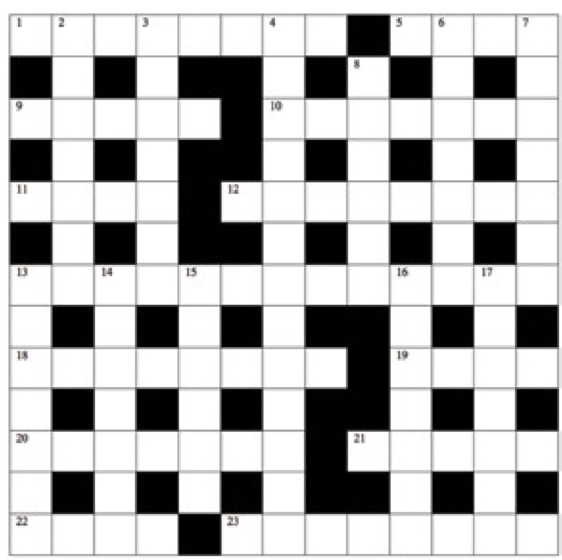
CRYPTIC CROSSWORD 619 JD

ACROSS

1 Submarine broken asunder going round point (8)
5 Beetle about the mark (4)
9 Rankle at being so clever (5)
10 I’m back twice in black, getting special marks (7)
11 It’s difficult as I am incontinent (4)
12 Cooped up in cubicle with reporter (8)
13 Princess heads off to hole in the wall (4,9)
18 Incline towards man being charged (8)
19 Deal with registered operator (4)
20 Upsetting book by old singer (7)
21 Fire-raising is an issue around Reading (5)
22 Merit earmuffs as rowdy noise starts (4)
23 First say “Yes, about to call for sprays” (8)

DOWN

2 Fate in the end changed to a flower (7)
3 Harangue listener at party (7)
4 Immortelle kept beside heartless lady in perpetuity (13)
6 Kicks up a fuss on occasions (7)
7 Lodger about to have a drink, we hear (7)
8 Sailor you hear and see as a victim of ill-treatment (6)
13 Clarify final opponents (7)
14 Sort of duck pot (7)
15 Back editor to follow the narrative (6)
16 Sort of bomb particle (7)
17 Sees alternative to mineral wasteland (7)



Solution to Crossword NO 618JD

ACROSS: 1 Integration; 9 Cornist; 10; Bathe; 11 Issue; 12 Overlap; 13 Enmity; 15 Flower; 18 Toccata; 20 Count; 22 Leave; 23 Blind to; 24 Olla podrida

DOWN: 2 Norms; 3 Eminent; 4 Ration; 5 Table; 6 Outflow; 7 Accidentals; 8 Respiration; 14 Michael; 16 Luckier; 17 Bamboo; 19 Arena; 21 Undid

On margin

Speed

Three kids argue on whose father is the fastest.

Child 1: "My father is the fastest, he can overtake the arrow that he shoots with his bow."

Child 2: "My father is even faster. When he hunts, he can shoot an animal with a gun and run up to the animal before it falls down."

Child 3: "You actually don't understand what speed is. My father works in municipality. He finishes work at 4:30pm, but he's back home by 3:45pm already."

Dogs in the bar

A man walks into a bar with a labrador and takes a seat.

The bartender says: "You can't bring that dog in here!"

The man doesn't miss a beat and replies: "Excuse me, but this is my guide dog."

The bartender apologises profusely and says: "Here, the first one's on me."

The man walks over and takes a seat near the door. Soon, another man walks in with a chihuahua. The first man says: "You can't bring that dog in here unless you tell him it's a guide dog." The second man thanks him and heads over to the bar.

The bartender says: "You can't bring that dog in here!"

The second man says: "It's my guide dog."

The bartender scowls and says: "I don't believe they give chihuahuas as guide dogs."

And the second man says: "They gave me a chihuahua?!"

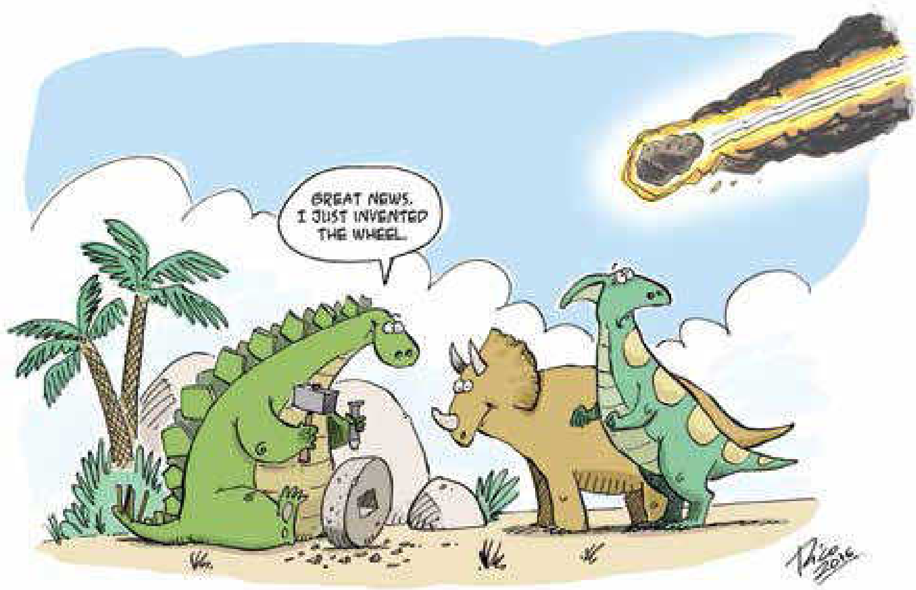
Office work

My boss told me to have a good day.

So I went home.

Business one-liners

- A well-adjusted person is one who makes the same mistake twice without getting nervous.
- Ability is like a check, it has no value unless it is cashed.
- *Absolutum obsoletum.* (If it works, it is out of date.) **– Stafford Beer**



IN BUSINESS, TIMING IS EVERYTHING.

Verbatim

WHEN IT COMES TO THE TOPIC OF POLITICS, SOUTH AFRICAN TWITTERATI NEVER FAIL TO ENTERTAIN PIKER. IT WAS NO DIFFERENT DURING THE #NKANDLA HEARING IN THE CONSTITUNIONAL COURT. NOT TO MENTION THE GUPTAS VS EFF INCIDENT:

Adriaan Basson @AdriaanBasson
Gauntlett just said "swimming pool". #FirePoolHasFallen

Max du Preez @MaxduPreez
Confession time: I'm flipping channels between AB de Villiers & Mogoeng Mogoeng. Priorities, cde.

Tom Eaton @TomEatonSA
@MaxduPreez That's fair, Max. After all, one of those is deciding the fate of South Africa. And the other one is a judge.

Chester Missing @chestermissing
So in case you don't get it: the Guptas beat Julius, Julius beat Zuma, Zuma works for Guptas, and Nhleko lost against himself.

Deep Fried Man @DeepFriedMan
I can't believe the EFF would say that ANN7 isn't a legitimate media institution, in the process implying that the SABC is.

Darrel Bristow-Bovey @dbbovey
When they kicked out ANN7 I laughed, because I am not ANN7 and they suck. When they kicked out the Independent Group I laughed, because etc.

"The salary of the chief executive of a large corporation is not a market award for achievement. It is frequently in the nature of a warm personal gesture by the individual to himself."
– John Kenneth Galbraith, American economist and diplomat (1908-2006)